Examining the CEO-Owner Dyad:

A Dynamic Model of Interrelationship Influences on Innovation Capability

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Abstract

Innovation is fundamental to long-term business success in technology medium-sized enterprises (MSEs). The owner-CEO interrelationship is likely to set the culture and be an important influence on the enterprise innovation capability. Previous studies of the owner-CEO interrelationship have produced varying results but few have examined the influence on innovation capability. Agency theory assumes that owners and CEOs have contrasting objectives but it is silent when owners and CEOs are in accord. Companies may have varying dominant ideologies, such as entrepreneurialism, managerialism, and paternalism, which likely influence their innovation capability. Using primary data from three different German MSEs, selected for their contrasting ideologies, this study examines how interrelationship influences of the owner-CEO interrelationship have the potential to influence the innovation capability of MSEs. The results show that the influence of the owner-CEO interrelationship on the innovation capability is associated with social and situational influences. This thesis provides an original contribution by developing an “interrelationship influence model” that captures the interrelationship factors that influence innovation capability, namely: action, support, communication, responsibility, power and autonomy. This study has important implications for researchers in corporate governance as well as in innovation. Enterprises aiming to improve their innovation capability should pay attention to interrelationships and the influence of owners as well as to the CEO and the management team.

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This thesis has become an integral part of my life work as an academic, practitioner and entrepreneur in the field of corporate governance and management consultancy. This has given me an opportunity to explore and develop my knowledge and my own practice in

the light of both the research findings presented here and through a range of theoretical lenses. I am extremely appreciative of this opportunity.

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List of Abbreviations

CEO	Chief Executive Officer
Ebit	Earnings before interests and tax
BGB	German Bürgerlisches Gesetzbuch (similar: Civil Law Code GB)
HGB	German Handelsgesetzbuch (German Commercial Code)
IfM	Institut für Mittelstandsforschung Bonn
KMU	Klein und Mittelständige Unternehmen
MSE	Medium-Size Enterprise
ROI	Return on Investment
R&D	Research and Development
SME	Small and Medium-Size Enterprises
SE	Small Enterprises

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Chapter 1

1 Introduction

Technology medium-sized enterprises (MSEs[1]) live in a state of continuous tension in order to improve their technology by innovation for their markets and customers under ongoing challenges. Global competition and rapidly changing markets mean that innovation is vital, but the need for frequent innovation can be a burden for the top management. The owner and the CEO most often influence the enterprise through their interrelationship, which found different interests in the literature (Jensen and Meckling, 1976; Davis, Schoorman and Donaldson, 1976; Blair and Stout, 1999), where individual and situational mechanisms stand in the foreground of the research. Much of the research on the interaction of owners and CEOs sits within the field of corporate governance, based on economic theories: agency theory, stewardship theory, and team production theory. Research has generally neglected the impact of everyday emotions on organisational life (Ashforth and Humphrey, 1995; Ngonyo Njorge and Yazdanifard, 2014), and relational dynamics in the owner-CEO interrelationship are less observed. This thesis will explore the potential relevance of the interrelationship influences within the owner-CEO dyad and their impact on the innovation capability of MSEs through the research question:

“***How does the owner-CEO interrelationship potentially influence the innovation capability of medium-sized technology enterprises?”***

[1] Medium-sized enterprises are a part of small and medium-sized enterprises (SMSs) and are called KMU in German (Klein und Mittelständige Unternehmen, or German Mittelstand); they are defined by clear parameters (see Chapter 2) by the German IfM (Institut für Mittelstandsforschung, Bonn)

The research focus is the interrelationship between the owner and CEO as relevant to the innovation capability of the enterprise. This interrelationship contains different influences, especially relational dynamics, interhuman dynamics, power dynamics and authority issues. The owner is the personification of the ownership structure and hence indirectly the employer of the CEO. Contract extension, strategic reconciliation, personal biases and characteristic attributes, individual abilities and various ideologies likely influence the interrelationship.

An interrelationship is hereinafter referred to as a relationship between two people and how they interrelate rationally (Jensen and Meckling, 1976) and emotionally to each other in an economic setting. Previous research on innovation has tended to look at the internal workings of the enterprise and ignore the influences of the owner, while corporate governance theories depict owners and CEOs as lonely and ostensibly rational individuals who manage effectivity and productivity, separated from the entire organisation and devoid of emotional context as they navigate their enterprise. Thereby, emotional and rational attributes are intertwined in (inter-) human relationships[2](Ashforth and Humphrey, 1995). The owner-CEO relationship in MSEs is often more than a platform to change information and goals. The owner and the CEO frequently seek the emotion of nearness, protection, safety, and affiliation on an interactive level (Petzold, 2012) within this interrelationship. Hence, both the rational and emotional aspects within the interrelationship have the potential to stimulate or constrain the innovation capability, which this thesis focuses on. To external observers, the decision making and actions of the enterprise probably look coherent and rational. However, the internal workings of the owner-CEO interrelationship seldom reach the public arena and are hidden in their dyad by social relational dynamics. Influences on the interrelationship could arise from internal and external tensions, affecting decision making and actions that might have significant influence on the success of MSEs.

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[2] In this thesis, “interrelationship” is the used context, and defined as a human relationship which is influenced by rational and emotional aspects.

MSEs[3](German Mittelstand) are very relevant for the development of Germany's economy (Maaß and Führmann, 2012; Massis, Audretsch, Uhlander and Kammerlander, 2017). MSEs are innovation drivers, take over an important role in the labour market position, and promote structural transformation (Audretsch and Acs, 1986; Buse, Tiwari and Herstatt, 2010). In the same way as big stock corporations, MSEs are faced with different competition aspects and have to change their strategy because of current environmental conditions and then find their own path in order to secure their long-term competitiveness (Boston Consultancy Study, 2017). Hence, innovation qualifies as the key to sustainable success in German MSEs. The German government recognises this and supported MSEs in 2017 with €320 million to improve their innovation capability (BMBF[4], 2016) and thus the competitiveness of the German economy. A Boston Consulting Group study[5], published in January 2017, certified German industry as having had a loss of their innovation capability and as experiencing innovation fatigue, attesting that German enterprises are behind Asian or US enterprises in this regard, which is a significant issue in terms of global competition, while an analysis of the WEF[6] (2018) confirms Germany as the most innovative country in the world. Under the specific and general success criteria of their enterprise, CEOs tend to innovate their products, sales markets or processes. These innovation activities are burdened by uncertainties and risks and therefore need backing by the owner. Different risk perceptions of the CEO and owner would make it difficult to reach consensus on the innovation strategy for the enterprise and could increase tension and dynamics within their interrelationship.

The CEO-owner interrelationship has been the subject of research by different scholars. Organisational theory and business policy

[3] MSEs are defined in Germany by more than 10 and up to 499 employees with an annual turnover of up to €50 million.

[4] Bundes Ministerium für Bildung und Forschung (German Ministry for Education and Research)

[5]www.bcg.de/media/PressRelease Details, 2017

[6]World economic Forum, The Global Competitiveness Report 2018, http://reports.weforum.org/global-competitiveness-report-2018/

have been strongly influenced by agency theory (Jensen and Meckling, 1976), which depicts top managers (such as the CEO) in large enterprises as agents, whose interests may diverge from those of their owners (i.e., the principal) and ownership and control is separated. Agency theory appears to be the dominant underlying paradigm in most governance research and prescriptions (Davis, Schoorman and Donaldson, 1997), even if some theorists have suggested theoretical limits of agency theory (Perrow, 1987; Hirsch, Michaels and Friedman, 1987; Eisenhardt, 1989b; Shleifer and Vishny, 1997; Daily, Dalton and Cannella, 2003; Huse, 2005a): limits especially in respect of the economic and traditional rational focus and the lack of consideration for the complexity of organisational life, particularly relating to psychological and sociological effects. Agency theory's long existence rests on the theory of rational man. Yet in contemporary times the complexity of organisational chances, not least through the digitalisation age, the information and communication age (Harari, 2017), globalisation, self-actualisation desires of individuals, the group membership of different communities, a shortage of highly educated young people, an unlikely dynamic trend in respect to fear of financial aspects, and the loss of trust in respect to the present economic system (Herzog, 2011), makes the world more complex and in the same way more uncertain, and could conceivably influence the relevance of theories explaining the owner-CEO interrelationship.

As a logical consequence to the rational agency theory (Jensen and Meckling, 1976), with an emphasis on self-serving managers, stewardship theory (Davis, Schoorman and Donaldson, 1997) arose with a focus on the self-actualising man and the concept of collective serving. In the beginning of organisation theory, the founder and entrepreneur, who was simultaneously shareholder and owner, saw a step change from the mercantilist and physiocrat to modern economics, where the specialist, by-hand manufacturer changed to industrialisation (Bröckling, 2007).The stewardship theory defines interrelationships in which managers are not motivated by individual goals, like in the agency theory, but rather by CEOs whose motives are aligned with the goals of their owners (Davis, Schoorman and Donaldson, 1997). This is because agency theory and stewardship theory are polarising the owner-CEO interrelationship, predominantly in large modern enterprises, where a focus on shareholders' interest is mandatory. Beyond this shareholder approach emerges the team production theory (Blair and Stout, 1999), which provides a more collective conceptualisation between different team members, where the CEO should seek to maximise the joint welfare of all the enterprise stakeholders, including shareholders, managers, employees, and possibly other external groups. Team production arises when different individuals invest enterprise-specific resources to produce a non-separable output and prefer to give up control over their enterprise to an independent third party charged with representing the team´s interests and allocating rewards among team members, rather than to maximise the owner´s welfare (Blair and Stout, 1999). The actors participate in a network and contribute their different knowledge by transaction in such a way that the team performance is more than the sum of the individual performance. In addition to this is the outcome of the economic endeavour - to share and reduce the shareholder influence to a mediation hierarchy. The team production theory also defines their interrelationship in a nexus of symmetric contracts, in the context of large enterprises among internal and external stakeholders.

Their theoretical contribution is missing a model of how CEOs and owners might work together in their dyads in MSEs in order to reduce relational dynamics and improve the innovation capability. Owners of MSEs have more input than in large enterprises, and the owner-CEO interrelationship is believed to have the potential to stimulate or constrain the innovation capability of the enterprise. Previous research on innovation has tended to look at the internal workings of the enterprise and ignores the influence of the owner on the CEO. A clear understanding of the characteristics of the owner-CEO interrelationship, and of the situation and their decision theory, is essential in understanding the actors' convergence and divergence within their interrelationship.

In addition to the individual characteristics of the CEO and the owner, it is important to understand ideological variations in the owner-CEO interrelationship that might be expected to affect the innovation capability within the enterprise. Large modern enterprises are mainly organised by managers (Johannisson and Huse, 2000), who follow a leadership method by teaching ‘from the book’. But MSEs in Germany are manifoldly family, strategic or financial invested entities and might have a management approach that seems to be less rational and rather saturated with emotions. Johannisson and Huse (2000) explain varying approaches to the management and leadership of such enterprises and define the characteristics of three different ideologies: entrepreneurialism, paternalism, and managerialism. An influence of particular factors of ideologies on the daily decision-making processes within the owner-CEO interrelationship has not been considered, but these could be essential to understand the interrelationship structure. Although the assumptions underlying agency theory, stewardship theory, team production theory and the ideological influences have been identified, as yet, no author has attempted to develop a model of influence factors in terms of its underlying assumptions and dimensions in a relational model.

The vast majority of studies in this field have focused on different aspects, mostly in large organisations, as noted above. Several studies have examined potential problems in the management of innovation (Van De Ven, 1986; Gundersen, Engeset and Stubberud, 2017), the leaders’ influence on innovation (Mumford, Scott, Gaddis and Strange, 2002; Mumford and Hemlin, 2017), personal traits (Csikszentmihalyi, 1994; Dovey, Burdon and Simpson, 2017; Laustsen and Petersen, 2017) and social environment influences (Amabile, 1996; Huse, 2005a; Amabile, Schatzel, Moneta and Kramer, 2006; Van Ees, Gabrielsson and Huse, 2009), and the studies have focused on cultural influences and the launch problems of start-ups (Cooper, 1979). Others have focused on the process stages of innovation (Rogers, 1981) or the strategic problem of creating an infrastructure that is conducive to innovation. Amabile (1996) and Amabile, Schatzel, Moneta and Kramer (2006) stress that the social environment of work influences creativity by influencing the individual components of humans. Hence, the social work environment is also influenced by individuals like the owner and the CEO and their various ideologies.

It is the main objective of this study to examine the owner-CEO interrelationship and identify whether particular interrelationship influences of that dyad could potentially influence the innovation capability of the enterprise. As a conceptual platform, I identified social, psychological, and situational interrelationship influences out of the analysis that potentially influence the innovation capability in MSEs to develop an interrelationship influence model (Figure 3) of the owner-CEO dyad.

In this thesis, I make two different contributions to knowledge. **First**, analysis of the cases enables an interrelationship influence model, which provides a dynamic representation of social interrelationship influences that affect the innovation capability. **Second**, the adoption of the ideology-based framework of corporate governance enables me to examine variations in CEO/owner relationships to tease out how specific economic theories might or might not be relevant to the research question. This thesis will not focus on the process of innovation generation but will instead focus on the influence of the owner-CEO interrelationship in respect to the innovation capability. Problems and dynamics that occur among these two major decision makers and drivers, the owner and the CEO, will be analysed. A theoretical interrelationship influence model will provide understanding to help address practical issues that could potentially stimulate or constrain the innovation capability of MSEs.

1.1 Structure of the Thesis

The thesis is divided into seven main chapters. In this investigation, I have chosen to review **first,** in Chapter Two, the current literature, which starts with the definition of the concepts of the scientific research into agency theory, stewardship theory, and team production theory that provide different perspectives on the owner-CEO interrelationships in corporate governance theory, followed by an evaluation of three various ideologies. Finally, there follows the theoretical part of the current innovation theory, where the literature of innovation in SMEs and leaders and organisational influences on innovation is reviewed. **Second**, in Chapter Three I consider methodological issues and justify the methodological choices of the current study, and evaluate the method of this multiple case study in particular. Then I move, **thirdly**, to Chapter Four, to present the different research cases and the organisation of the findings of the cases, as well as the constellations of the owner-CEO interrelationships. The entrepreneurial oriented, the managerial oriented, and the paternalistic oriented cases will be explained and the actors introduced. The basis of their interrelationship will be depicted and their enterprise plans for the future presented. **Fourth,** in Chapter Five, a critical analysis of the data will be provided, examining social and psychological interrelationship influences. Cases with different owner-CEO interrelationships under different ideologies have been selected in this qualitative study to examine the influence of the owner-CEO interrelationship on the innovation capability in German MSEs. Interviews, observations and different analyses will be debated and outlined. Influence factors will be provided. The **fifth** part, Chapter Six, follows the same structure but will focus on situational interrelationship influences based on exogenous factors, which impact innovation capability. **Sixth**, in Chapter Seven the findings will provide the basis to present a conceptual model of interrelationship influences derived from the analysis and an interrelationship influence model will be visualised. Finally, Chapter **Eight** will discuss conclusions and therefore implications for policy and practice, a critical reflection, limitations of the research, and recommendations for continuing research. The next chapter will focus on the literature review underpinning this work and give a theoretical review of the main theories under study.

Chapter 2

2 Literature Review

This literature review is divided into three sections in order to review the current state of existing knowledge relevant to the research question. **First**, I review the innovation literature to identify the concepts where the interrelationship may impact on innovation capability. **Secondly**, theories relevant to the owner-CEO dyad are examined. The owner-CEO relationship has often been studied within the corporate governance literature in agency theory (Jensen and Meckling, 1976), stewardship theory (Davis, Schoorman and Donaldson, 1997), and team production theory (Blair and Stout, 1999), depicting top managers in the large modern corporation respectively as agents, stewards, or team members in their relationship to their owner. **Section Three** identifies that different enterprise ideologies have been presented: entrepreneurialism, managerialism, and paternalism will be employed to identify cases where variations in the owner-CEO interrelationship in German MSEs might be expected. The **Final Section** concludes the literature review and offers some observations.

The main objective in this thesis is to provide an important understanding of the owner-CEO interrelationship and seeks answers to the question: "***How does the owner-CEO interrelationship potentially influence the innovation capability of medium-sized technology enterprises?"***

Corporate governance research has been dominated by US research traditions, with a focus on protecting the owner's interest since the beginning of the 1990s (Huse, 2005a). Governance research has been strongly influenced by agency theory (Jensen and Meckling, 1976), which depicts top managers in corporations as agents whose interests may diverge from those of their principals (owners) and where ownership and control is separated. The focus of corporate governance research has been focused on large listed corporations (Gabrielsson and Huse, 2004) rather than on privately held enterprises (La Porta, Lopez-de-Silanes and Shleifer, 1999) and SMEs.

Corporate governance is defined as the mechanism, processes, and coherences by which corporations are controlled, and is an interaction among external and internal stakeholders and the board members in directing the enterprise for value creation (Huse, 2005a). The most theories originate from the discussion of Berle and Means (1931) in the separation of ownership and leadership in big enterprises.

National contextual factors have to be considered in corporate governance research. The British approach uses a single board system of corporate governance, consisting of executive and non-executive directors, whilst in Germany a dual system (two-tier system) is usual, with a management board and a separate supervisory board (Jungmann, 2006). In Germany there is a clear division of responsibilities and management issues are reserved for the management board, which is autonomous in that respect and not bound by orders of the shareholder, owner, or supervisory board. The management/CEO is recruited, and can be dismissed by the supervisory board or the owner. The task of the supervisory board is to advise and supervise the management board in the management of the enterprise and consider fundamental decisions with a high importance for the enterprise. In German SMEs with a small number of owners the influence of the owner is more significant. The members of the single board in the British approach (one-tier system), with its executive and non-executive directors, are elected by the shareholders, who have also the right to remove directors. Non-executive directors are not employed in the enterprise, but are members of the board and are concerned with managerial issues like strategy, standards of conduct, and appointments. The executive board member behoves the management of the daily business affairs of the enterprise (Jungmann, 2006). Hence, the role of the non-executive board members in the British corporate governance is roughly comparable with the supervisory board in German enterprises and the executive board is the counterpart of the British executive board. The ownership of large British enterprises is believed by some to be more likely to be widely dispersed than in German firms, where banks, families, investment institutions, and other enterprises have large share stakes (Franks and Mayer, 1997).

Corporate governance constructions in SMEs differ substantially from those in large enterprises (Audretsch and Lehmann, 2011; Welge and Witt, 2013; Gabrielsson, 2017). Governance structures are more likely to be complex and relatively unsophisticated in SMEs. The separation of ownership and management is often not clear. Publicity requirements are fewer than in large enterprises and hence monitoring for external shareholders is more difficult. In many SMEs, rules, incentives, accountability, goals, and control are less distinct, and are accompanied by a lack of financial and human resources (Yacuzzi, 2007; Gabrielsson, 2017), in contrast to large enterprises. Finally, the owner-CEO relationship is different, tighter and more personal in respect to their closer cooperation, which could have relevance for the owner-CEO dyad. Cowling (2003) highlights the relationship between owner and CEO as a key to productivity in SMEs and underlines this relevance. The owner-CEO interrelationship emerges as a lever to enhance or hinder the enterprise performance in SMEs (Gabrielsson, 2003; Gabrielsson, 2017). Welge and Witt (2013) find that in German SMEs there exists an aversion by the CEO to controlling activities inside the enterprise and a reluctance to practise transparency and claim for a clearer corporate governance code and a better cooperation within the owner-CEO dyad.

Figure 1 presents the scope of the literature reviewed in this thesis. The context is German MSEs. Around 41% of German MSEs with 50-499 employees are family businesses (BDI, 2016). The corporate governance structure is different in family businesses, where the family-owner and the family-CEO have a family tie and mutual dependences. Socioemotional mechanisms (Kotlar, Signori, De Massis and Vismara,

2017) and the family tie could motivate the owner to spend more time with familiar individuals with whom they have had rewarding relationships, and hinder the owner from acting rationally. Hence, literature from other fields like psychological and sociological examinations, which can cast light on this phenomenon, are also examined in the next sections.

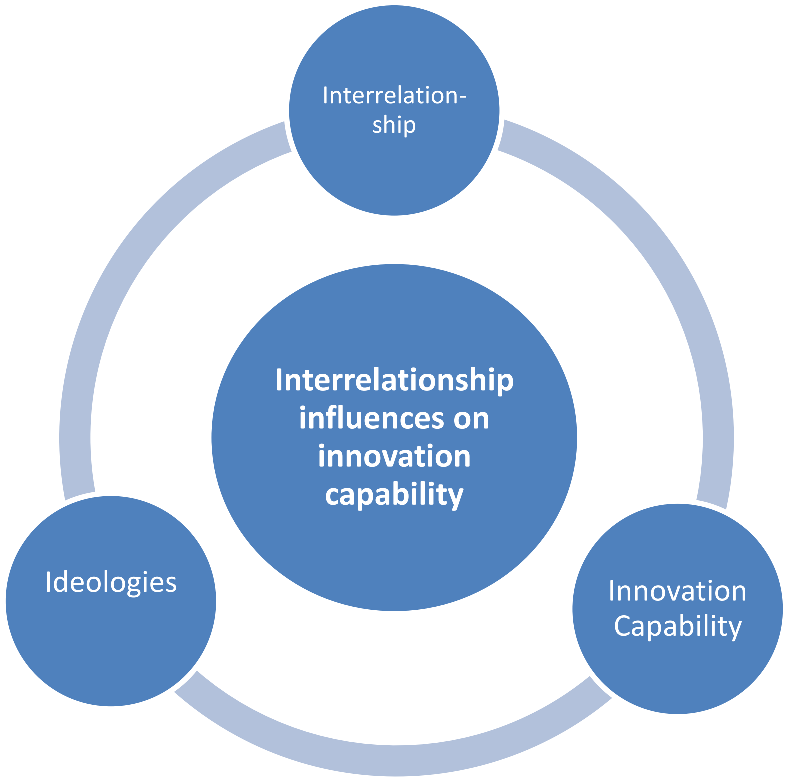

Figure 1: The scope of the thesis

2.1 Innovation and Innovation Capability

This section examines the literature regarding innovation and innovation capability in order to identify particular factors that have the potential to influence the owner-CEO interrelationship.

Multiple companies in many industries generate competitive advantages by technological innovations, and define these innovations as crucial to their firm’s strategies (Lengnick-Hall, 1992; Rosenbusch, Brinkmann and Bausch, 2011; Massis, Audretsch, Uhlander and Kammerlander, 2017). In some big companies, like 3M for example, over 40% of their sales have been generated from products that did not exist five years ago (Shane, 2009, p. 3).

German MSEs have a significant relevance for the development of Germany’s economy (Maaß and Führmann, 2012) and are traditionally the engine of German industry; they provide skilled crafts and trades and hence are innovation drivers, and assume an important role in the labour market position and promote structural transformation. Innovations are powerful source of competitive advantages (Lengnick-Hall, 1992; Sastry, 1999; O`Cass and Weerawardena, 2009; Rosenbusch, Brinkmann and Bausch, 2011; Massis, Audretsch, Uhlander and Kammerlander, 2017). The individual and personal skills and traits of the owner and CEO are crucial factors for sustainable success in German MSEs, because the size of these firms means that owners and CEOs are likely to be very involved in developing or championing innovations. Middle management members like an R&D responsible person have, as a rule, no access to the whole process and so are not able to call the shots. In the majority of cases, German MSEs have no R&D department or R&D manager (IfM Bonn, 2012), but have a significant focus on innovation. This function behoves frequently as personal union in the hands of the management or the responsible design person.

The description and consequential actions pioneered by the CEO in German MSEs in respect to the capability to generate innovations creates the core for sustainable business and the long-term survival of the entity. Much of the theory and practice of innovation has been developed in large, blue-chip companies that provide different constructs and methods (Van de Ven, 1986; Terziovski, 2010), which may be less applicable for MSEs. In the majority of big firms, the situation predominates that a CEO and a board of directors lead the operation, and they are audited by a supervisory board. Different board compositions occur in MSEs under varying ideologies (Johannisson and Huse, 2000). Family-owned companies with a hired CEO or family member as CEO, financial or strategic investor-dominated entities with a hired CEO, or even an invested CEO with a minority shareholder status, might provide different ideologies and different individual motives between the principal and the executive directors, and will be examined later.

MSEs in Germany have demonstrably different innovation behaviour in respect to technological innovation and non-technological innovation related to organisations than comparable big public limited companies. 39.1% of the total turnover generated by all enterprises in Germany in 2005 came from MSEs; in 2011 it was 35.9% and in 2010 it was 37.1%, whereas the total turnover in the German economy grew by 5.5% in comparison with 2010 (IfM, 2008; 2012; 2014). More than 84% of MSEs are involved in innovation activities (Maaß and Führmann, 2012, p. VI).

The following section has been divided into five sections. It begins by describing the current innovation literature, followed by innovation in SMEs and MSEs. The section then moves on to consider the innovation capability and proceeds to discuss the leaders' influence on innovation. The last section, finally, offers obstacles and challenges to innovations in German MSEs.

2.1.1 Innovation

The notion of different kinds of innovation with different effects has been an important theme in technology innovation literature since Schumpeter´s (1934;1942) emphasis on creative destruction. Whilst creativity has to do with the production of novel and useful ideas (Mumford and Gustafson, 1988) and is an individual ability, innovation has to do with the production or adoption of useful ideas and idea implementation (Van de Ven, 1986), and is an organisational capability. Organisational innovation capability depends on individual creativity and stands in close coherence.

Innovation is not the enterprise of a single entrepreneur. Instead, it is a network-building effort that centres on the creation, adoption, and sustained implementation of a set of ideas among people who, through transaction, become sufficiently committed to these ideas to transform them into “good currency” (Van de Ven, 1986, p. 601). Amabile (1996) summarised the content of creativity as “…the seed of all innovation, and psychological perceptions of innovation…” (p. 1155). The current literature differentiates between product and process innovation (Maaß and Führmann, 2012; Uttermark, 1994).

Not only technological advancements, but also innovations in the formation of new markets, which break into new markets, and the distribution of information to customers (Dean and McMullen, 2007; Frankelius, 2009), as well as new methods of organising (Casson, 2003), depict the potential of innovation. Behavioural emphasis on existing markets and customers of the CEO and ownership, and a distance from new markets, depict major inabilities in respect to innovations. Hence the volition to change the customer focus and to go abroad constitutes a change process and depends on the bias of the CEO and the owner and their commonality. Consequently, it is required for a CEO and/or an owner to have creative and innovative skills, as the individuals most responsible for the innovation capability in German SMEs.

2.1.2 Innovation in Small-and Medium-Sized Enterprises

Small-and medium-sized enterprises (SMEs) are increasingly searching for opportunities to improve their capability to innovate sustainably. The capability to develop new products and services by using the latest technology before global competitors emerges as a key factor in gaining advantages in product development, services, processes, and capturing new market shares (Allocca and Kessler, 2006) or business models, and is more recent in the investigations of SMEs (Audretsch and Lehmann, 2011). Innovations are expected to increase long-term economic performance but they entail substantial risks, and expenses are irreversible and uncertain (Shi, 2003). The results of the German innovation survey (Aschhoff at al. 2013) pointed out that the innovation rate rises with the enterprise size in German SMEs, and that SMEs have a significantly lower innovation intensity than large enterprises. Terziovski (2010) pointed out that SMEs are similar to large enterprises in respect to the way that formal structure and innovation strategy are the key drivers of their performance, but in general they are different, which relates primarily to the reactive flexible character and structure of SMEs and their resource limitations. SMEs develop competitive advantages in the manufacturing sector through their employees' creative potential and the development of differentiated products for niche markets (Damanpour, 1992), whilst large manufacturing enterprises develop competitive advantages based on cost-efficient systems (Bessant and Tidd, 2007).

Block, Miller, Jaskiewicz and Spiegel (2013) pointed out that family-involved SMEs invest less into innovation activities than non-family SMEs because of the negative effect of family ownership on innovation intensity due to its focus on socio-emotional wealth and its interest in preserving the status quo rather than moving into entrepreneurial risks. Czarnitzki and Kraft (2009) suggest that the ownership structure of an enterprise inhibits its innovative activity, and underpins the crucial impact of the owner on innovativeness in SMEs. On the other hand, family-involved SMEs tend towards long-term behaviour (Zellweger, 2007), a lower power distance to the CEO and employees, a more stewardship style of behaviour (Eddlestone and Kellermans, 2006), and knowledge-sharing propensity (Zahra, 2012) which is more positively related to innovation activities. Villalonga and Amit (2006) find that family-involved SMEs create value only when the founder acts as CEO or as chairman. In the case where descendants serve as CEO, the firm's value is reduced, with negative impact on the enterprise performance and productivity, and in particular on innovation activities.

SMEs are more heterogeneous groups in respect of size and sector diversity than large public enterprises; they often have limited resources (De Massis, Audretsch, Uhlander and Kammerlander, 2017) in areas like human resources and knowledge constraints, financing, and lack of formalised planning, which may prevent SMEs from proactively investing in the innovation process (Del Brio and Junquera, 2003) and influencing the owner-CEO dyad in their decisions. On the other hand, SMEs are often characterised by flat hierarchy, lean organisational structures (Bos-Brouwers, 2010), are dominated by their owner-manager (Jenkins, 2004) and hence there is a close relation between ownership and operational management. Sharma and Sharma (2011) support these findings that different innovation degrees are a result of the SMEs' innovation strategies, which lie in the hands of the owner and the CEO. Gronum, Verreynne and Kastelle (2012) highlight that strong, heterogenous relationships within networks improve innovation in SMEs. Networks provide SMEs with more access to complementary skills, capabilities, resources, and knowledge that are not internally available but which are essential to innovate. These findings support a closer relationship between the owner and the CEO in SMEs rather than in big stock enterprises, and underline the crucial factor of the cooperation within the dyad. An interrelationship beyond rational cooperation is necessary for a social relationship based on trust and mutual dependences inside the owner-CEO dyad to support innovation activities in SMEs.

The focus of the existing relevant literature on SMEs has less focus on social tensions between the owner and the CEO. It focuses mainly on rational effects and influence factors, and less on emotional influencing variables, which will unavoidably occur in the daily togetherness between the owner and the CEO. The possibility that emotional perceptions based on sentimentality and instinct affect influence more than rational perceptions of the economic situation attracts no attention. Here lies the main critique of the current literature, and this highlights the emphasis of the current thesis and will be further examined in the existing literature on innovation capability.

2.1.3 Innovation Capability

The enterprise innovation capability defines the potential to generate new and unique values by converting new ideas to integrate, shape, and reconfigure competence in order to address fast-changing environments (Terziovski, 2007), and is one of the most important determinants of firm performance (Mone, McKinley and Barker, 1998). It should be one of the key areas of the top management teams in SMEs: how to promote and sustain (Cakar and Ertürk, 2010) this capability, how to mobilise the knowledge possessed by its employees and combine it to create new knowledge, resulting in product and process innovation (Kogut and Zander, 1992), and how to challenge owner-CEO dyad support in organising structure, ideation, and know-how development (Saunila, 2017a).

The challenge of the owner, the CEO, their dyad and organisations to generate innovations continuously is revealed as individual and organisational interaction (Hansen, Trantow, Richert and Jeschke, 2011). The management must be open to innovations and go forward as role models (Miao, Newman, Schwarz and Cooper, 2017); they have to show the capability and the volition to invest and spend money in this topic and signalise trust as well. The success or failure of innovations within the organisation is dependent on the status that is given by the CEO and the ownership. Dixit and Nanda (2011) point out that supportive behaviour by the owner and CEO plays an important role in improving communication and trust in the organisation. Ozcelik, Langton, and Aldrich (2008) show that leadership practice that facilitates a positive emotional climate in an organisation has a significant effect on the innovation capability. Wan, Ong and Lee (2005) referenced that enterprises where the owner and the CEO have a tolerance of employees' mistakes and encourage learning from failures have a higher innovation capability. Saunila (2017a) referenced that managers' and employees' perception of innovation capability aspects are different and could be bridged by communication.

Franke (2014) assess the promotion of innovation by top management as one of the key factors besides innovation climate, processes and organisation, and innovation success in fostering innovation potential in German MSEs. Isenhardt, Hees and Trantow (2011) point out soft factors in the context of innovation capability. In their study, they focus on human and social aspects and consider the long-term sustainable profit in the foreground instead of short-term commercial profits, and try to explain how to enable innovation on a soft factor basis top down, and focus on the owner-CEO interrelationship, as well as between the CEO and operative management. Cakar and Ertürk (2010) found that empowerment, uncertainty avoidance and power distance have an impact on the innovation capability. Empowerment, as the transfer and authorisation of responsibility, is positively related in comparison to power distance and uncertainty avoidance, which are negatively related to the innovation capability. Therefore, the innovation capability seems crucially dependent on the CEO and the owner-CEO interrelationship in MSEs.

It seems that the openness of the owner and CEO to innovation also plays a crucial role in the consideration to go beyond their own organisation as an innovation driver to enhance the innovation capability. The value creation platform in SMEs is internally limited to the number of individuals in the enterprise. To enhance this platform, external resources could support areas like: co-opetition, co-creation, and open innovation.

Co-opetition describes the phenomenon of simultaneous cooperation and competition between enterprises (Gnyawali, He and

Madhavan, 2006; Gnyawali and Park 2009); in other words, it is a form of working together with stakeholders like customers and suppliers in collective interests and could help SMEs to develop technological innovation and create benefits. Co-opetition describes simultaneously collaborating and competing with the same partner at the same time. Morris, Kocak, and Özer (2007) suggest that MSEs in industry need to collaborate with competitors to create economies of scale (cost reduction), leverage resources, and mitigate risks and uncertainties in order to compete against large market players and reduce their vulnerability to environmental forces.

Co-creation innovation defines an approach that brings different parties together - where new ideas from external and internal sources are integrated into a platform to generate organisational innovations (Ramaswamy and Ozcan, 2014; Lee, Olson and Trimi, 2012). A collective collaboration network amplifies the platform for value creation out of ideas and could enhance innovation opportunities with a parallel reduction of R&D costs and could be interesting for MSEs in creating a shared value for all stakeholders. The challenge is to enable interactions among different stakeholders, everywhere in the network, with the goal of creating greater value by fostering more rewarding and valuable experiences.

Open innovation describes the opportunity from external sources like specialised enterprises and universities of innovation (Chesbrough, Vanhaverbeke and West, 2006), and assumes that enterprises can use external value creation (as well as internal) by license processes and external development to use them for their own purposes. Hung and Chiang (2010) reference that enterprises who concentrate on open innovation by improving innovation performance, not by trying to develop all know-how themselves but by interacting with outside parties, can result in a higher performance, in which trust emerges as a crucial factor in the cooperation (Hasche, Linton and Öberg; 2017) and challenges the owner-CEO interrelationship many times in its dynamic. Another external resource could be the creation of innovations by users who utilise their own rare knowledge to provide utility for their own benefit (Bogers, Afuah and Bastian, 2010) and gain a competitive advantage based on trust and disclosure in order to enhance the innovation capability.

To enhance the innovation capability in MSEs, it is essential to measure their performance and generate base points that are not usual in MSEs. The measurement of innovation capability is a critical discipline for both academics and practitioners (Adams, Bessant and Phelps, 2006). The capability of organisations to innovate is determined by varied factors that relate to their market environment and their own internal organisation (Rothwell et al., 1992) and requires high levels of inter-functional coordination and integration. The relevance and diversity of elements of innovation capability that ideally need to be measured is comprehensive and focused in different areas on inputs, knowledge management, strategy, organisation and culture, portfolio management, and commercialisation (Adams, Bessant and Phelps, 2006). The focus of performance measurement perspectives lies more on finance and production (Bititci, Garengo, Dörfler and Nudurupati, 2012) e.g., related to the innovation capability to annual R&D spend. The measurement of the innovation capability is based on multiple and simultaneous influences of collective and individual aspects (Aragón-Correa, García-Morales and Cordón-Pozo, 2007). These aspects include leadership practices, employees' skills, processes and tools for managing ideas, a supporting culture, information management, development of individual management, employees' welfare and links to strategic goals (Smith, Busi, Ball and Van der Meer, 2008: Saunila, 2017b). The Oslo Manual (2005) provides guidelines for collecting and interpreting data in an internationally comparable manner and identifying knowledge accumulated by the firm that is embedded in human resources as the most significant issue besides linkages and information and communication technologies, their incorporation and use, and evaluates the activities that have been undertaken by the enterprise.

Crossan and Apaydin (2010) provide different input drivers on innovation capability. They analysed time that the owner and the CEO spend on innovation activities, their openness and motivation and personal initiative to innovate, and their commitment to new product development as drivers for the innovation capability. In respect to the owner-CEO cooperation, they provide as a driver the owner’s trust of the CEO´s creativity, a non-authoritarian behaviour of the owner and autonomy of the CEO, a tolerance of failed ideas, and independence of the CEO in innovation activities. Further, they argue that fixed innovation goals in the mission and vision and actions defined in the strategy are innovation capability drivers, and hence the number of projects in the pipeline, the number of employees involved in innovation activities, and the number of open innovation activities are activities that can give an indication of the innovation capability of the enterprise (Crossan and Apaydin, 2010). To measure the innovation capability seems to be a huge challenge, which is focused predominantly on understanding the effectiveness of innovation actions responding to needs at both academic and firm level. Scholars and practitioners adopting their own partial view on the issue make it difficult, especially when emotional areas beyond rational management areas occur that have potential to influence the innovation capability, like in the owner-CEO interrelationship where interpersonal dynamics, information flows, strategic organisation and leadership, culture and structure, as well as communication and collaboration (Adams, Bessant and Phelps, 2006) could likely influence the innovation capability.

The innovation capability emerges as a multi-faceted underpinning entity; it defines the potential in generating new idea (Terziovski, 2007) and emerges as an interaction between individual and collective activities. Time and resources are key issues of the current innovation capability literature as quantitative measurement parameters. Trust moves as a qualitative social influence parameter under observation. But in general, the current literature in respect to the innovation capability is mostly rational-oriented. Emotional parameters between a CEO and an owner are quite complicated to measure but should not be neglected, which is mostly the case in the current literature. The “what” is described to improve the innovation capability, but less the “how”, which this thesis tries to examine. How non-rational and hence emotional facts can be improved within the owner-CEO interrelationship is seldom part of the existing literature and deserves a critique.

2.1.4 Leaders’ Influence on Innovation

Mumford et al. (2002; Mumford and Hemlin, 2017) state one key proposition - that the ability of leaders to encourage creativity and innovation is not only dependent on the situation at hand, but refers to the characteristic and individual traits of the leader (Csikszentmihalyi, 1997; Laustsen and Petersen, 2017). They argue in particular the importance of leading creative efforts; leaders must possess substantial technical and professional expertise and substantial creative thinking skills. The argument does not only apply that leaders of creative people need social intelligence, it is also important that the capability for quick on-line adjustment of affect and affective framing may be vital. Beyond this it seems not only significant to manage creative efforts, but also, more centrally, how they evaluate creative ideas (Halbesleben, Novicevic, Harvey and Buckley, 2003; Amabile, Schatzel, Moneta and Kramer, 2006). Whereas leaders, by virtue of their position and influence in the organisation, can decide who, when, and how they can pursue new ideas, for the leader themselves, time is undoubtedly an important aspect of a leader´s creative thinking and in the daily whirl of business difficult to find, which reflects in great part a dilemma for the CEO and the owner.

A marked individual character and transformational leadership style are preferred traits of most intrinsically motivated creative leaders (Wang and Rode, 2010). The leader´s vision may prevent creative people from forming their own unique ideas and pursuing their own vision as work leaders (Mumford, Scott, Gaddis and Strange, 2002). Guo, Katila, Magitti and Tesluk (2017) support a positive effect of a proactive personality of the CEO, backed by a clear, defined innovation strategy to motivate individuals to explore new ideas. The unique nature of creative work and the need and capability for creative problem solving in social settings must be considered if we wish to understand how leaders influence the generation of ideas.

Additional variables for leadership influences on innovation are identified at group level. Composition and characteristics of top management teams yield a stronger explanation of organisational outcome than leaders' characteristics alone, including the amount of education and age in respect to banking business (Bantel and Jackson, 1989), as well as perceptual and affective reactions (Amabile, Schatzel, Moneta and Kramer 2006). Hence, the derived owner-CEO interrelationship seems to be a crucial influence factor in the capability to generate new ideas and innovations and the platform for implementation of business processes that support creative idea generation and innovation (Jansen, Vera, and Crossan, 2009).

West et al. (2003) have recently found that leadership has a strong influence on creativity and innovation in respect to the area of health care. Yukl (2002) found out that leaders' idealised influences and inspirational motivation behaviours may influence the outcome of innovation by two related complementary mechanisms: internalisation and personal identification. Internalisation refers to a process in which followers accept the leaders' value as their own, whilst personal identification occurs when followers seek to emulate leaders' behaviour (Yukl, 2002; Elenkov and Manev, 2005). Howell and Avolio (1993) found support for a positive relationship between intellectual stimulation and leaders' support for innovation. A leader´s intellectual stimulation for new ideas and experimentation are integral parts of the innovation process (Elenkov and Manev, 2005; Mumford and Hemlin, 2017).

Van de Ven (1986) mentioned the important role of people in respect to creating new ideas and innovation: "…people who develop, carry, react, and modify ideas" (p. 592). Such people lead others to be creative and innovative. Leadership makes a difference in the nature and success of creative efforts (Mumford, Scott, Gaddis and Strange, 2002), whilst it is not necessarily given that leaders' and top managements' behaviour currently applies notable effects in creativity and innovation. Several examinations (Mumford and Licunan, 2004; Mumford and Hemlin, 2017; Dentin and Hemlin, 2012) identify a clear influence of leadership in respect to the innovation capability of organisations and creativity at the individual level, and assess that leadership contributes to effective interactions among team members. Smith, Busi, Ball and Van der Meer (2008) define management style and leadership, among other things (technology, organisational structure, and resources), as crucial factors that influence an organisation´s capability to manage innovation. In their literature review they point out that management and leadership style play an important role in the antecedent phase of effective innovation management and an important impact on an organisation´s capability to manage innovation.

Several scholars (Dansereau, Graen and Haga, 1975; Graen and Scandura, 1987; Winkler, 2009; Jian, 2015) have examined and provided the leader-member exchange (LMX) theory, which has been previously tied to innovation, and suggest that the relationship between a supervisor and a subordinate is verifiably related to innovativeness. The above theorists postulate that supervisors and subordinates involve in a role development process during which understandings are arrived at in respect to the amount of decision latitude, influence and autonomy that the subordinates will be allowed. Commensurable results were found by Basu (1991) and confirmed that there is a positive relationship between leader-member exchange and innovative behaviour. Scott and Bruce (1994) also confirm in their examination the positive link between leader-member exchange and innovation behaviour in the same way as between the role expectation of subordinates in respect to their supervisor and innovative behaviour.

Other theorists also make the psychological climate between supervisors and subordinates responsible for the innovation ability in companies, amongst other things (Glick, 1985, Amabile et al., 2006). Already implemented studies from the late 1930s theorist Lewin (1938) claim a positive relation between supervisors and subordinates in the case where there is a direct closeness in daily work in respect to individual psychological traits and an impact on the individual´s perception (Gregory, 2004) of the psychological climate that indirectly has a link to the innovation capability of the firm. Kozlowski and Doherty (1989) argue that supervisors are the most relevant individuals as regards management actions, policies, and directing procedures to their subordinates. Denti and Hemlin (2012) highlight the crucial role of the top management increasing an environment that either facilitates or inhibits innovation and creativity.

Subordinates favour high quality interrelationships with their supervisors and thus identify, by implication, their organisation in the way that they are willing to give their employees greater autonomy, decision making latitude, and more supportiveness (Cunliffe and Eriksen, 2011). The CEO has to engage in open information politics and not stereotypical thinking in order to involve subordinates in the creative process. The more specialised, insulated, and stable the individual's job, the less likely the individual will recognise a need for change or pay attention to innovative ideas (Van de Ven, 1986). The resilience of the CEO´s job (Dovey, Burdon and Simpson, 2017) also plays a crucial role in the creativity generation of the CEO and is different in its fundamental grasp under different ideologies. Subordinates perceive their managers as encouraging and facilitating in their innovative effort in the case whereby managers like to motivate subordinates (González-Roma and Hernández, 2014) in respect to innovation. Management support for innovation is positively related to innovation behaviour in the firm (Scoot and Bruce, 1994, Mumford and Hemlin, 2017) and disembogues ultimately in a role model of the leader for the organisation (Miao, Newman, Schwarz, and Cooper 2017), which requests professional leadership expertise (Mumford, Scott, Gaddis and Strange, 2002; Mumford and Hemlin, 2017), and social intelligence in a social specified environment (Amabile, 1996).

The social environment can influence the level and the frequency of creative behaviour (e.g. Stein, 1974; Woodman, Sawyer and Griffin, 1993; Amabile et al., 1996; Patterson, Kerrin and Gatto-Roissard, 2009). Three broad organisational factors (Amabile et al., 1996) are proposed to support organisational innovation: organisational motivation, resources and management practices. Further different dimensions play an important role in influencing creative behaviour in organisations: challenge, organisational encouragement, work group support, supervisory encouragement and organisational impediments (Amabile, 1988). The CEO as the enterprise leader in MSEs exemplifies the bottleneck and hence bears a key role in the generation of organisational innovation. Empirical findings and practical knowledge suggest that people will produce more creative work when they perceive that the management is encouraging them to solve problems creatively (Amabile, Schatzel, Moneta and Kramer. 2006).

The current literature confirms the importance of leadership to the innovation capability. The relationships between superiors and subordinates are examined, apart from the owner-CEO interrelationship in MSEs. In the aim to define the superiors and subordinates' high-quality relationship belongs an examination of what a high-quality relationship defines and how it works. This is missing in the existing literature. Further influences in terms of obstacles and challenges to the innovation capability in German MSEs will be discussed in the next section.

2.1.5 Obstacles and Challenges to Innovation in German MSEs

The dynamics and complexity of today's global markets reduce the time given for planning, so that it is mostly not possible to focus on long-term action. German MSEs are under economic pressure to deliver economic success and force their owner, management, and employees to focus on maximising short-term, usually monetary, profits (Trantow, Hees and Jeschke, 2012). Due to this economic pressure, MSEs have to be as innovative as big firms, despite the consideration of lower financial resources in relation to their big competitors. The empirical evidence indicates that the market environment most conducive to innovation is remarkably singular for MSEs and large firms (Audretsch and Acs, 1986). These dilemmas in modern working environments - between sustainability and short-term profit maximisation - have therefore grown as a paradigmatic challenge for activity conducive to innovation (Trantow, Hees and Jeschke, 2012). Van de Ven (1986) points out that the more successful an organisation is, the more difficult it is to trigger people's action threshold to pay attention to new ideas, needs, and opportunities. The underlying economic maxim, which is to realise the greatest profit, forces actors in German MSEs to behave in a unilaterally monetarist and reckless way, and is incompatible with far-sighted, responsible and long-term successful management (Thielmann, 2009) and depicts the management dilemma in German MSEs. An IMO[7] project focused on four dimensions of economic power: cost pressure, pressure to succeed, time pressure, and flexibilisation pressure (Jeschke, Isenhard, Hees, Trantow, 2011).

The responsible use of human resources versus cost pressure develops more and more as a dilemma for MSEs (Jeschke, Isenhard, Hees and Trantow, 2011). Long-term strategies to increase innovative capabilities versus pressure to succeed place increasing pressure on

[7] IMO: International Monitoring, joint project of RWTH Aachen and BMFD, "Working – Learning – Skills. Potential for Innovation in a modern working environment"

companies to make fundamental changes to structures and processes in order to strengthen their innovative capability whilst being required to quickly achieve objective measurable success. Time for learning process versus time pressure provides the individual, organisational and social necessity for learning and development processes under conditions of increasing time constraints on work. The need for stability versus flexibilisation pressure creates the demand of individuals, organisations, interrelationships, networks and societies for the safety of current and future planning of processes under the increasing pressure of permanent transition and the associated handling of uncertainty of change (Jeschke, Isenhard, Hees and Trantow, 2011, p. 7). An increasing pressure on the enterprise under global market conditions, internal cost-cutting targets, an acceleration of the implementation time and an insidious loss of entrepreneurial stability pose a challenge for the enterprise as well as for the owner and the CEO.

Different studies (Imran, 2018; Chiang, Hsu and Shih, 2015; Patterson, Kerrin and Gatto-Roissard, 2009; Csikszentmihalyi, 1994; Amabile, 1996; Sternberg and Kaufman, 2018) have observed individual and organisational impacts on creativity and innovation within an organisation. The results are similar in respect to management style and leadership (Gundersen-Engeset and Stubberud, 2017; Van de Ven, 1989; Mumford, Scott, Gaddis and Strange, 2002) - that these factors play an important role in the individual creativity activities and the organisational capability to generate innovation. Van de Ven (1986) mentions that organisational design for innovation is not a discrete event but a process of integration of all the essential functions, organisational units, and resources needed to manage innovation from the beginning to the end.

Innovations in SMEs are often revealed as a fight against different barriers in respect to economic and non-economic goals (De Massis et al., 2016), with the most dominant problems based in the access to qualified problems (Ylinenpäa, 1998; Ramer et al., 2006), missing project management know-how to organise the innovation process efficiently

(Ramer et al., 2006), financial bottlenecks to cover the innovation costs and the economic risk (Acs and Audretsch, 1990; Ramer et al., 2006), and finally specific know-how of new markets and customer needs rather than on technology know-how (Ylinenpäa, 1998). All these problems confront the owner and the CEO much more than in large enterprises, where specialised and professionalised departments focus on key issues with teams of specialists. Global activities, for example in emerging markets like China and India, offer on one hand tremendous opportunities, and on the other hand huge risks for SMEs. A shortage of relevant experiences, a lack of local know-how, and the risk of trusting local advisors create unpredictable uncertainties as well as unwanted dependences and anxiety in SMEs. Almost always the CEO and the owner und must make difficult decisions that stress the owner-CEO dyad way beyond rational business ties. The socio-emotional wealth in family-involved SMEs may have here further barriers (Kotlar, Signori, De Massis and Vismara, 2017, De Massis, Frattini and Lichtenthaler, 2012) founded in their intention to ensure the enterprise for the next generation, rather than strategic or financial investors in SMEs, who focus sometimes on a fast track to economic success.

The existing literature on innovation and innovation capability has examined the influence on the owner-CEO interrelationship less, even if the research has mostly been on rational factors. Individual and collective influence factors, as well as obstacles and challenges in respect to innovation and the innovation capability, were multiple foci of investigations. Emotional perceptions based on sentimental and instinctive affects were less of a focus in the research. This conceals the main critique on the current literature - that frequently, social influence factors between the CEO and the owner were neglected, even if the pragmatic reality indicates that emotional influences could have a significant impact on an interpersonal relationship. This research aims to highlight this circumstance and tries to close this gap in respect to the innovation studies.

The next section states that the owner-CEO dyad has mostly been studied from a corporate governance perspective and these are the theories that have been examined: agency theory, stewardship theory, and team production theory.

2.2 Owner-CEO Interrelationships in Corporate Governance

The motivation of this research is to direct attention to the owner-CEO-interrelationship inside the board room in German MSEs, and it focuses on the complexity of relational dynamics (Doucouliagos, 1994). Three corporate governance theories are reviewed to examine the owner-CEO dyad. By the effort to focus on self-serving economic man in the agency theory, some flaws in explanations to characterise the dynamics of the owner-CEO relationship arise, and this opens up alternatives within stewardship theory to better explain the owner-CEO interrelationships, and the team production theory that provides a more collective conceptualisation that can be found of owner-CEO interrelationships, and that facilitates a more innovative environment within MSEs. The three theories will support the research question within the current literature: How does the owner-CEO interrelationship potentially influence the innovation capability of medium-sized technology enterprises?

The section will start first with a review of the literature on the agency theory, second the stewardship theory, and third the team production theory. It ends, finally, in the concluding section, where the three governance theories will be confronted and criticised.

2.2.1 Agency Theory

Agency theory follows the economic model of man (Jensen and Meckling, 1976; Davis, Schoorman and Donaldson, 1997; Madison, Holt, Kellermanns and Ranft, 2016) and is based on the neo-classical paradigm; it is rationalistic, individualistic, and utilitarian (Etzioni, 1988). It is based on the owner-CEO relationship (Eisenhardt, 1989b; Jensen and Meckling, 1976), where the owner depends on the CEO to undertake certain actions on behalf of the owner and where the two parties are motivated by opportunities for their own personal gain and follow the "homo economicus" theory (Ingram, 1888). Agency theory addresses the relationship from a behavioural and a governance perspective, which describes the individual level agent behaviours and the firm level agency governance mechanisms that are implemented in response between the two parties (Madison, Holt, Kellermanns and Ranft, 2016). The execution is delegated from a principal to a manager, where the principal controls and monitors the management (Eisenhardt, 1989b; Shapiro, 2005).

The consequent depiction is an agent and principal who chooses opportunistic self-interested behaviour rather than behaviour aimed at maximising the principal´s interests (Eisenhardt, 1989b; Jensen and Meckling, 1976) by cost minimisation (Madison, Holt, Kellermanns and Ranft, 2016), which reveals agency problems (Jensen and Meckling, 1976; Davis, Schoorman and Donaldson, 1997; Chowdhury, 2004; Madison, Holt, Kellermanns and Ranft, 2016). Agency problems focus mandatorily on the conflict of interests and asymmetric information and further when the agent and principal have different attitudes toward risk (Eisenhardt, 1988; Chowdhury, 2004; Agarwal, Goel, and Vashishtha, 2014). In respect to this imbalance of interests and asymmetric information between the two parties, the principals will predominantly enact governance mechanisms like monitoring and incentive systems to moderate managers' opportunistic behaviour by aligning the interests of the manager with those of the principal (Jensen and Meckling, 1976; Eisenhardt, 1989b; Fama and Jensen, 1983; Madison, Holt, Kellermanns and Ranft, 2016, Demsetz and Lehm, 1985; Walsh and Seward,1990; Agarwal, Goel, and Vashishtha, 2014).

These days, the agency theory, based on self-serving behaviour, is the most examined and applied principal/manager relationship theory in general; since the 1960s and early 1970s, economists have explored risk-sharing among individuals or groups (Wilson, 1968). Agency theory has been used by different scholars in accounting (Demski and Feltham, 1978), economics (Spencer and Zeckhauser, 1971), finance (Fama, 1980), political science (Mitnick, 1986), organisational behaviour (Eisenhardt, 1985; Kosnik 1987), board accountability (Taylor, 2001; Huse, 2005b), board processes and dynamics (Daily, Dalton and Canella, 2003; Pettigrew, 1192; Pettigrew and McNulty, 1995), marketing (Basu, Lal, Srinivasan and Staelin, 1985) and sociology (White, 1985).

Eisenhardt (1988) gave an agency theory overview of the self-serving problem of the agent, which may be solved in a contract between principal and agent, created through control of the contract's additional costs - the so-called agency costs. The key idea is that the principal and agent interrelationship should provide efficient organisation of information and risk-bearing costs. The unit of analysis is a contract between principal and agent. Eisenhardt (1988) examined three different types of assumptions, in which the principal and agent have partly different goals and risk preferences. The owner is often concerned with gaps within the contract with their agent. Reality demonstrates that it is almost impossible to describe all contingencies ex ante that could occur. The so-called relational contract, which was originally developed by the legal scholar Ian Roderick Macneil (1980), is characterised by a view of contracts as relations rather than as discrete transactions. It is also difficult to describe within a contract the exact concrete outcome ex ante that the CEO has to reach, hence contracts are based on promises. This involves a construct of relational norms, where transactions are more relational rather than discrete in order to create independence in behaving rationally and opportunistically (Huse, 1993). Independence in the owner-CEO relationship defines the degree to which the owner or the CEO is psychologically or financially independent of each other (Huse, 1993).

In the endeavour to hire an agent who is at the beginning contractually dependent and independent in his operational acting, an interdependence with the owner emerges over time. This paradox involves a situation where the importance of trust and interdependence (relational norms) occurs in the owner-CEO dyad. Hence, individual actions must be understood in a social context (Etzioni, 1988) and in a dynamic approach. In a lasting owner-CEO interrelationship it is possible that the original agreements lose content and substance. Macneil (1980) characterised rational norms within lasting relationships in different categories: role integration, preservation of the relations, and harmonising of relational conflicts. This suggests that both rational norms and independence are distinct dimensions (Huse, 1993) and influence the owner-CEO-interrelationship dynamic.

Family firms and MSEs do not always follow rational norms. Family firms also use contracts between family members but the personal relationship and tie toward the family agents may compromise the principal’s ability to realistically monitor and assess their performance. Family agents are sometimes hired for their ascribed, rather than their achieved qualifications. Casey and Henderson (2015) argue that stakeholders like owners and CEOs exercise only small bits of governance, and the whole of that governance exists in an indefinable space characterised more by market forces than by command and control of the executive individuals. Hence, hazardous activities such as shirking and free-riding cannot be ruled out (Chua, Chrisman and Bergiel, 2009).

If dynamics of the CEO-board relationship (Shen, 2003) - like shirking - are revealed, a contract alone is frequently not able to manage the agency problems. More importantly in an interdependent dyad emerges the need for communication (Saunila, 2017a; González-Roma and Hernández, 2014) and the volition to understand the role of the other side (Gabrielsson, Huse and Minichilli, 2007) in order to bridge contractual gaps. Often, rational behaviour only touches the surface and does not dive deeper into the emotional relationship level, and partly ignores owner-CEO dynamics. To understand the owner-CEO interrelationship and their mutual influence on the performance of the enterprise, both concepts of independence and interdependence (relational norm) are crucial.

To attempt to limit all agency problems in a contract could also lead to an overestimation of the contract trustfulness (Agarwal, Goel and Vashishtha, 2014). Different situations need different attention, whilst not all problems can be discussed in a contract. The personal interrelationship beyond rational behaviour between principal and manager, owner and CEO (Pettigrew, 1992) (father and son, mother and daughter, father and daughter, mother and son, deeply interested principal and less interested principal in relation to managers), including cognitive conflicts (Huse, 2005a), should be under examination, as well as the entrepreneurial orientation between principal and manager, which could be interesting (Covin and Slevin, 1991).

Most governance research in big public enterprises focuses on the growth stage in a managerial environment along the enterprise life cycle. Zahra and Filatotchev (2004) refer to the applicability of agency theory in an entrepreneurial context in an early stage of the enterprise life cycle, especially in planning and managing growth, and recognise the importance of strategic context and the relevance of different types of knowledge at different stages. They suggest a “straightjacket” for the founder´s opportunism in order to establish managerial skills by an agent CEO. Audretsch, Lehmann, and Plummer (2009) support that agency theory could, under special conditions, also be appropriate for enterprises that are in an entrepreneurial stage.

Different points of criticism and limitations occur regarding agency theory (Eisenhardt, 1989b; Shleifer and Vishny, 1997; Daily, Dalton and Cannella, 2003). Most of the past examinations were realised in big capital companies in the USA. MSEs are less observed, despite the fact that substantially more MSE companies exist and that here the same problems under different assumptions and base conditions probably occur.

Contextual factors like social and cultural differences within the owner-CEO interrelationship need more attention, which this study is focused on. The view of rational problems in agency theory, like conflicts of interests and asymmetric theory, show a lack of another problem, the qualification of the agent (Schulze, Lubatkin, Dino, Buchholz, 2001). Is the qualification sufficient first to manage the operational problems of the enterprise (Hillman and Dalziel, 2003), and second of the requisite social skills to bring crucial employees, teams, and stakeholders behind the agent to lead the enterprise to lasting success? The latter question is not answered by agency theory and is examined in the study at hand, and hence looks for a model beyond the agency context.

Even if agency theory is today the dominant paradigm in principal/manager relationships, several researchers (Hirsch, Michaels and Friedman, 1987; Perrow, 1986; Agarwal, Goel, and Vashishtha, 2014) in psychology and sociology have attested to a number of limits of the theory. While Argyris (1973a, 1973b) worked at his concept of the rational man model, he pointed out the lack of operationalism and precession about how the theory could enhance the quality of life within organisations. He pointed out the problem-solving and decision-making processes, which are necessary in organisations to move from X to Y theory (McGregor, 1967), from inauthentic to authentic behaviours, and operationalise in this way a more human dimension in organisations (Donaldson, 2008). He was convinced that with agency theory, with its technical and rational aspects, a focus on human dimensions would not occur, and so laid the foundation of stewardship theory.

Managerial self-interests, which are typical for the agent, conceptualise exclusively what happens in the case that the owner and the CEO have different interests and what happens if the agent has not the ability, the benevolence, or the integrity to carry out the stipulated task (Hillman and Dalziel, 2003). Problems like this could emerge in different governance constellations and this is frequently the case in family-involved MSEs, venture capital environments, as well as in strategic and financial invested MSEs, where the processes and dynamics between the owner and CEO follow individual constructs beyond professional tasks, which will have the potential to influence by their interrelationship the innovation capability and are therefore part of this study. My main critique in agency theory is that the separation between ownership and control is not as clear in MSEs as it is in large enterprises. The owner has more input in the daily business, as the analysis indicated in all three cases. This circumstance implies social dynamics and tensions between owner and CEO and reveals emotions that for the most part in the current theories are ignored. A further critic is the unilateral consideration of the self-serving agent. Agency theory assumes that an agent will act in a self-serving manner but it could also be possible that the agent is not self-serving but the owner is. Also, the agency likely has a collective platform through which they can elect to support their individual interests. Under the assumption that the agent and the principal’s interests do not diverge from each other, stewardship theory has emerged as a means of defining relationships, based upon other behavioural premises.

2.2.2 Stewardship Theory

Stewardship theory also describes the relationship between two parties, the principal and the steward manager (Davis, Schoorman and Donaldson, 1997), and explains this relationship from a behavioural and governance perspective, similar to agency theory (Madison, Holt, Kellermanns and Ranft, 2016). Agency theory depicts CEOs as individualistic, opportunistic, and self-serving, whilst stewardship theory describes the CEO as a pro-organisational, trustworthy collectivist (Davis, Schoorman and Donaldson, 1997).

In general, stewardship theory assumes that managers should be reputable as good stewards and promote the board roles as collaborative and mentoring (Huse, 2005a). It follows the principle of the self-actualising man, who has an ethos of pro-organisational and collective serving and who is not only rational and determined but rather psychological with a humanistic background (Donaldson and Davis, 1991; Madison, Holt, Kellermanns and Ranft, 2016). The steward behaves more socially in a self-actualising manner (Pierce, Kostova and Dirks, 2001). No financial motivators are prominent where individuals are motivated by the need to achieve, to be recognised by bosses, to exercise responsibility and authority, and to gain satisfaction by the performance of duties (Donaldson and Davis, 1991). Enterprises serve the collective goods of their organisation by a more social emotional involvement (Goméz-Mejia, Núnez-Nickel and Gutierrez, 2001; Goméz-Mejia, Hynes, Núnez-Nickel, and Moyano-Fuentes, 2007).

The theory depicts managers as stewards, whose behaviour is based on an intrinsic desire to serve the enterprise and is aligned with the principal's interests (Davis, Schoorman and Donaldson, 1997; Donaldson and Davis, 1989; 1991). Other researchers like Hernandez (2012) add socio-economics and ideological behaviour as further sub-categories. Davis, Donaldson and Schoorman (1997) assume a strong relationship between the success of the organisation and the principal´s satisfaction. Stewards often believe that by working towards organisational and collective ends, personal needs are met and their interests are aligned with that of the cooperation and its owners. Empowering, governance structures and mechanisms are appropriate if the executive´s motivation fits the model of man underlying stewardship theory (p. 25) and lies mandatorily in the hands of the owner (Kammerlander, Sieger, Voordeckers and Zellweger, 2015). Against one of the basic functions - control - of the agent theory, Argyris (1964) argues that the control mechanism can be counterproductive; it undermines the pro-organisational behaviour of the steward by lowering his or her motivation. Hence the stewardship theory is more focused on the use of trust than on control systems to manage risks (Schoorman, Mayer and Davis, 2007). Particularly in family firms, where a stewardship approach is often practised (Corbetta and Salvato; 2004), there often lies a strong focus on trust and hence on psychological factors, because they are more committed to each other (Eddlestone, Chrisman, Steier, Chua, 2010).

In a social context, trust is characterised by the aspect that one actor (trustor) is willing to rely on the actions of another actor (trustee) (Mayer, Davis and Schoorman, 1995; Schoorman, Mayer and Davis, 2007). Trust is believing that the individual who is trusted will do what is expected. In the context of this study the owner has to rely on the actions of the CEO and vice versa. Trust acts as a reducer of social complexity, as described in the relational contract theory (Macneil, 1980; 2000), and allowing for actions that are otherwise too complex to be considered. Trust is a possible method to reduce dependency between owner and CEO (Möllering, 2005) and could act as a supporter for the CEO to enhance the organisational performance. DeNeve (1999) argued that trust increases subject well-being because it enhances the quality of one´s interpersonal relationship. Individuals that are in relationships characterised by high levels of trust are more open with information and are more likely to act in a caring or benevolent way than those in relationships that lack trust (Goddard, 2003). Höhmann and Welter (2005) state that entrepreneurial behaviour cannot be understood without appreciation of the phenomenon of trust.

Mayer, Davis and Schoorman (1995) propose that the level of trust and the level of perceived risk in the situation will lead to risk and has impact on the creativity of the actors. “Trust is the willingness to assume risk” (Mayer, Davis, Schoorman, 1995, p. 724), which is a requirement to innovate and evolve as the parties interact. Hence, higher levels of trust could lead to greater risk in taking in a relationship, depending on the situation, on integrity, and benevolence (Mayer, Davis, and Schoorman, 1995). Previous actions of the owner or the CEO will have a significant impact on future trustworthiness, independent of which government system he/she acts. Trust is also not necessarily mutual and is not reciprocal (Schoorman, Mayer and Davis, 2007). In a relationship it is possible that the owner trusts the CEO, but the CEO does not trust the owner. The owner does not know how the CEO is dealing with risk in general and needs verbal confirmation, hence trust is a dynamic concept with different development stages with specific characteristics (Lewicki and Bunker, 1996). Practically, both actors need a period of successive approximation and to experience how the other side is acting individually and situationally. A trust relationship is based on knowledge and experiences of past interactions among the actors, where a mutual understanding of the other actor’s preferences and motives, mutual empathy and identification create a collective identity (Tassabehji and Elliman, 2006). Hence, the level of trust could be an indicator for the quality of the owner-CEO interrelationship. Stewardship theory, in its risk orientation, focuses on trust rather than on controlling mechanisms (Schoorman, Mayer and Davis, 2007). The entire governance approach is focused on trust (Madison, Holt, Kellermanns and Ranft, 2016), which encourages cooperation and involvement to facilitate the natural alignment of interests. Welchman (1999) argues that benevolence and loyalty are crucial for good stewardship relationships and less vulnerability (Davis, Schoorman and Donaldson, 1997).

Davis, Schoorman and Donaldson (1997) provide a systematic examination and theory of psychological factors like motivation, identification and use of power, differentiated by situational factors such as management philosophy, culture and power distance. They did not observe the theory under interpersonal relationships and different ideologies. Hence, in stewardship theory it is assumed that stewards are intrinsically motivated, and ally their emphasis to intrinsic rewards like opportunities for growth, achievement, affiliation and self-actualisation. Corbetta and Salvato (2004) confirm that intrinsic non-financial motivations promote stewardship behaviour and, oppositely, a more extrinsic financial motivation promotes agency behaviour. Hence, this results in an increase of internal work motivation, which in turn can lead to a higher level of performance and satisfaction in the organisation (Manz, 1992), and supports the generation of innovation (Hotho and Champion, 2011).The outcome in stewardship theory tends in general to a pro-organisational focus to enhance the firm performance by wealth maximisation (Madison, Holt, Kellermanns and Ranft, 2016), which is more affine to entrepreneurial interest in family businesses (Kotlar, Signori, De Massis and Vismara, 2017, De Massis, Frattini and Lichtenthaler, 2012).

Stewardship theory follows a pro-organisational serving mentality under a collectivism approach (Davis, Schoorman and Donaldson, 1997; Madison, Holt, Kellermanns and Ranft, 2016). Stewardship and agency theory follow a vertical hierarchy (Donaldson and Davis, 1994). The critical aspect is the applicability of each of the theories in practice. Under dynamic aspects, a totally different approach could occur when a company is heading towards market or financial problems, like rehabilitation or a pending loss, such as an insolvency or bankruptcy or a generation change (Davis, Allen and Hayes, 2010), which would severely test the relationship. This influence is also described in the study of Eddlestone and Kidwell (2012), who studied the relationship between the parent-child situation in family businesses and concluded that this relationship has a more significant influence, rather than the opportunistic or stewardship behaviour of the management. Westhead and Howorth (2006) argue that a stewardship approach is more applicable when owners focus more on non-financial objectives or family agendas, and not on the financial targets of the enterprise. Welsch et al. (2013) argue that each generation exhibits different perceptions of entrepreneurship concerning family offices and integrate a model of organizational entrepreneurship in stewardship-dominated enterprises. Stewardship theory has been used to explain the culture and relationships within entrepreneurial family businesses (Davis, Allen and Hayes, 2010) and is hence appropriate to use for entrepreneurship. Madison, Holt, Kellermanns and Ranft (2016) argue that family-involved firms have the potential to create both agency and stewardship governance environments that are unique. Le Breton-Miller and Miller (2009) argue that the stronger the direct family influence as a function of family directors or votes, the less likely is a stewardship setting and vice versa, and this underlines the impact of family involvement in MSEs. Schillemans (2013) confirms that good intra-personal-relationships between owner and CEO stimulate effectiveness and efficiency and point out follow-up questions that need separate empirical attention. A point of criticism in both theories is the nature of the relationship (Arthurs and Busenitz, 2003). Goal congruence and the development of trust in both theories seem to be unclear in the management practices. The owner-CEO-interrelationship influences are currently not well examined and are focused on the study at hand.

Whilst both theories have the same focus on optimising shareholders/owners' value through a different approach, agency theory is focused on the minimisation of costs (Madison, Holt, Kellermanns and Ranft, 2016), while all the stakeholders' interests and stewardship theory are focused on enhancing firm performance to maximise share value (Madison, Holt, Kellermanns and Ranft, 2016). In both theories the owner stands alone in the focus of wealth formation. The involvement orientation of stewardship theory, harmony and togetherness, low power distance, and cooperation on work level could help to investigate and understand the degree of trustfulness in the owner-CEO relationship, and help to analyse and consider the nature of the sort of interrelationship that would contribute a certain format of governance. The main critique is the non-financial motivation in stewardship theory. Economic oriented enterprises are - through their pragmatic behaviour - interested in earning money and hence have financial interests. Wealth maximisation by the activities of the CEO in industrial enterprises is motivated by a financial focus, and this financial focus is also in the interest of the owner, similar to agency theory, which is definitely also the case in German family enterprises. I argue further that a segregation between control and trust in a pragmatic approach is likely difficult. Trust and control are, in my experience, intertwining. Stewards also need clear business reporting, where monitoring is the reason and this is not only based on trust. Team production theory has its focus on all stakeholders inside and outside the enterprise, and this will be discussed in the next section.

2.2.3 Team Production Theory

Team production theory (Blair and Stout, 1999) is noticeable for understanding the incomplete contracting between a larger group of stakeholders, not only shareholders, and describes the enterprise as a “nexus of firm specific investments”. Team production theory has its origins in economic as well as in property rights theory (Alchian and Demsetz, 1972) and corporate game theory (Aoki, 1984). It perceives the board as a collective team of individuals that creates long-term welfare for all participating stakeholders (Blair and Stout, 1999; 2001), where the interests of internal and external actors like employees, suppliers, customers, investors, owners and CEOs, etc. are in the focus and not - as in the shareholder approach - only concerned with the interests of the owner. All stakeholders contribute with different types of knowledge and firm-specific resources to cooperate in production in a horizontal hierarchy of a long-term relationship and long-term perspectives (Huse, Hoskisson, Zattoni and Viganò, 2011), representing the team´s interests and allocating rewards among team members. The owner´s aim to maximise shareholders’ wealth should not be the only goal, but rather the CEO should seek to maximise the joint welfare of all the enterprise stakeholders (Blair and Stout, 1999) by a collective conceptualisation. In team production theory, Blair and Stout (1999) suggest viewing a corporation as a nexus of explicit and implicit contracts. Blair (2012) argues that whereas the principal-agent framework provides a strong focus on share value, team production can be seen as generalisation of the principal-agent problem that is more symmetric. All participants in the entire enterprise have reasons to want all of the other participants to co-operate fully, as they hope to benefit from everyone’s involvement.

A team describes a system of two or more people working together (Weiss and Hoegl, 2015). The basic hypothesis is that through team production, enterprises are able to achieve yield, which is higher than the sum of the individual productivities of the resources involved (Blair and Stout, 1999; Gabrielsson, Huse and Minichilli, 2007). An individual self-employed person receives the fruits of their effort alone. In a team, each team member will receive a part of the additional earnings generated by their extra effort. This tempts individual team members to shirk, or put in a lower level of effort, which can lower the team output. If shirking by one team member can easily be detected by other team members, then shirking can be minimised. Shirking in teams is a problem and rises as the team increases in size (Blair and Stout, 1999), though it is less likely in an owner-CEO dyad. If the team size is too big it could be less efficient, more complex and support shirking with different relationship influences. With an increasing number of different stakeholders arise different interests and this emphasises different performance measures, which could complicate team efficiency (Meyer and Züger, 2007)

While considering the enterprise downside risk due to agency problems, team production theory focuses on the importance of value-added investments that create the enterprise´s upside potential (Huse, Hoskisson, Zattoni, Viganò, 2011). The team production approach emphasises how the board, as a team, can effectively coordinate firm activities together and create value. Gabrielsson, Huse and Minichilli (2007) argue that no board member is likely to possess the full complement of knowledge and information that is essential to achieve the desired goals. Different interests, backgrounds and perspectives of the team members will assist the enterprise in creating value in general and delivering innovations in particular. Huse, Hoskisson, Zattoni, Viganò (2011) added that a team of individuals are also more likely to bring different values, norms, goals, and identities as single individuals, provided that the team is organised effectively and professionally in order to avoid shirking and free-riding behaviour. The team production theory will help focus the use of team member knowledge and skills to create value for the enterprise, which implies an understanding of board task and accountability, team dynamics and team culture (Gabrielsson, Huse and Minichilli, 2007).

Entrepreneurial teams are groups of related individuals who engage in entrepreneurship (Discua Cruz, Howorth and Hamilton, 2013) and distinguished from founding teams and top management teams. Teams are social systems that perform one or more tasks within an organisational context (Bettenhausen, 1991). These teams merge individual resources that members bring to the team. Chandler, Honig and Wiklund (2005) concluded that entrepreneurial teams perform better than ventures founded by individuals and Davis, Allen, and Hayes (2010) argue that family members may bring trust, altruism, stewardship, common values, and shared understanding that provide a competitive advantage for the team. Carney (2005) argues that family teams, with their long-term perspectives, make it easier to establish and maintain fruitful stakeholder relationships. Members provide support with their technical, managerial, entrepreneurial or human capital, and justify their individual importance to the entrepreneurial team approach and underline the importance of heterogeneous teams that may be more effective at solving complex issues by using their access to ideas, opportunities, and resources (Discua Cruz, Howorth and Hamilton, 2013). Neergaard (2005) submits that entrepreneurial teams may prefer more experienced entrepreneurs who can bring their former experiences to the team, like a former CEO who is now in the position of an owner of an MSE, which is different than big public enterprises.

Many important aspects of corporate law in (public) enterprises reveal much more robustly than their alternatives like agency and stewardship theories, premised on the notion that shareholders own the corporation. This shareholder control is based on two aspects of American law (Blair and Stout, 1999) and British law: derivative suits for breach of fiduciary duty and shareholder voting rights, and hence the CEO is more externally controlled by the capital market, whilst in Germany the CEO is more controlled by other stakeholders like unions and banks (Jürgens, Rupp and Vitols, 2000). The CEOs are largely left free to pursue whatever projects and strategies they choose, with the one limitation being that they do not use their positions for their own sake. Attempts to avoid shirking, rent-seeking duties and rewards through explicit contracts can be difficult, especially when the team production process is complex and uncertain (Blair and Stout, 1999). In respect to the upcoming problems of team production dynamics, Blair and Stout (1999) posit a horizontal hierarchical team that governs the economic enterprise and suggest a mediating hierarchy approach to capture the fundamental contracting problem in corporate governance. Criticism of this has come from Casey and Henderson (2015). They argue that for many of the most important governance decisions there is no hierarchy and no team, and rather the enterprise is controlled by a series of relationships.

This team consent within the dyad is driven by two rational effects: the costs of organising activities and the benefits of organising activities (Coase, 1937), which could have a significant impact on the team dynamics of owner and CEO. Casey and Henderson (2015) argue that stakeholders like owners and CEOs exercise only small bits of governance, and the whole of that governance exists in an indefinable space characterised more by market forces than command and control of the executive individuals. They suggest that the best way to enforce the governance of the enterprise is to focus first on a topic like creativity and innovation that all stakeholders desire, and then focus on a nimbler, shape-shifting organisation or team. They highlight the importance of understanding the real sources of power in modern enterprises to provide a better suit of governance options for firms and to understand barriers to the enterprise performance that exist. One of the barriers could be the owner-CEO interrelationship and the pair’s relational dynamics among each other, as well as the interrelationship’s influence on the organisational performance. We need a more foundational understanding - that the dyad is dynamically influenced by social and rational effects rather than only by rational requirements. We need more data on how these interrelationships are structured (Casey and Henderson, 2015), and how rational dynamics shape the situation.

Agency, stewardship, and team production theory provide a useful way of explaining relationships where the parties´ interests are at odds and can be brought more into alignment through suitable monitoring, an incentive system, and organisational serving objectives on shareholder interest. Agency theory seems to be more suitable to enhance the enterprise profit, while stewardship theory underlines more the social togetherness based on trust, which the team production theory shares with the addendum of a stakeholder value. However, although empirical evidence and well-developed theoretical models for both shareholder and stakeholder-oriented views exist (Laplume, Sonpar and Litz, 2008), stakeholder and shareholder interests are likely competing in theory. Corporate governance seems more of a dealing process within alternate dynamics. What is today competing could be tomorrow complementary, and this seems to be a task of the enterprise strategy that is mostly dominated by the owner and the CEO in German MSEs. The witting or unwitting focus of a theory is interesting, because the interplay between owner and CEO is believed to have the potential to stimulate or constrain innovation, particularly in smaller (MSEs) enterprises where owners have more input, which is less observed in the current literature.

2.2.4 Comparison and Conclusion

Previous research on corporate governance has tended to look at the rational working of the owner and the CEO in the enterprise and ignored the influence of the owner-CEO interrelationship, which could have the potential to stimulate or constrain innovation, particularly in MSEs, where owners have more input than in large enterprises. The individual, social, relational, and situational conduct of the owner and the CEO are less observed. Interpersonal conflicts and relational dynamics are seldom highlighted. Further important contextual factors are national and cultural settings[8], the size of the enterprise, the firm´s life cycle, the firm´s industry, individual characteristics, and the ownership structure (Huse, 2005a; Van Ees, Gabrielsson and Huse, 2009). All these dynamics and factors bear potential to influence the innovation capability and reveal gaps in the current literature.

Corporate governance is an entrepreneurial basic duty and a challenge to promote, and requires technological and organisational innovation (Miozzo and Dewick, 2002; Stevenson and Lundström, 2001). Tylecote and Ramirez (2006) examine British corporate governance and conclude that high novelty technologies and markets require high industry-wide expertise by the owner and CEO, and hence a close cooperation between the actors. Belloc (2012) points at the process through which individuals integrate their human and physical resources within the enterprise as a central issue for corporate innovations. Aguilera (2005) confirms the importance of corporate governance in respect to the innovation capability. Sapra, Subramanian and Subramanian (2014) examine how external and internal corporate governance mechanisms affect the innovation capability, and focus in their study on the tension involved in corporate governance from external take-over pressure and private benefits. They confirm a significant innovation influence through too much pressure from the ownership and CEO. The way in which the owner and the CEO in MSEs work together tends to be crucial. Agency theory, stewardship theory, and team production theory discuss different approaches of how the owner and the CEO could work together and improve value creation (Huse, 2005b).

[8] For example, CEO pay in German MSE (a two-tier system) is much less and closer to that of lower level employees (Kakabadse et al., 2004) than in the UK and USA (a one-tier system).

Table 1. Comparison of corporate governance theories

	Agency Theory	Stewardship Theory	Team Production Theory
individual conduct			
behaviour	self-serving, individualistic	self-actualising, pro-organisational	team-conducing, specific investment
inter-connection	egoistic, rational engagement	altruistic, cooperative involvement	network participation
involvement orientation	performance and reward	harmony and togetherness	contribution and transaction
social conduct			
objectives	shareholder interests, owners profit enhancemet	shareholder interests enterprise wealth maximisation	stakeholder interests, boost value added investments
governance mechanism	contract, proof by control	contract, empowerment by trust	nexus of symmetric contracts, benevolence and trust
affiliate	principal	principal	stakeholder team
shareholders influence	arbitrary	arbitrary	limited by mediating hierarchy
trust	negligible emotion against each other	prevalent focus with each other	dynamic supreme rule for each other
relational conduct			
interrelationship nature	rational-functional	social-functional	social-professional
Interrelationship modus	conflict	endogen cooperation	exogen cooperation
corporate hierarchy	vertical	vertical	horizontal
dyad interaction	unilateral dependent, clinical ego	behavioral dependent, nearing dyad	Interdependent, collective team
interrelationship quality	vulnerable	endeavour	resilient
interrelationship period	optionally	contract term	long-dated
situational conduct			
economic approach	cost reduction	enhance firm performance	long-term welfare
innovation propensity	tolerating	recomending	increasing

All three theories and characterisations have validity in theory and practice with different centres of gravity, and are revealed in the individual, social, relational, and situational (Table 1) conduct within the owner-CEO interrelationship; they are reflected in the potential to stimulate or constrain innovation capability.

In its individual conduct, agency theory describes self-serving and individualistic agent behaviour (Jensen and Meckling, 1976; Eisenhardt, 1988b; Etzioni, 1988; Madison, Holt, Kellermanns and Ranft, 2016) by an agent who is performance-oriented, competing, and searching for his own opportunities and rewards with an individual, egoistic engagement in an environment where ownership and control is separated. In contrast to the agent is the steward, with his/her altruistic cooperative involvement and harmony and togetherness orientation (Davis, Allen and Hayes, 2010), pro-organisational in his/her self-actualising behaviour (Davis, Schoorman and Donaldson, 1997). The behavioural assumption is more complementary. Team production theory focuses on team members with a strong team-conducing behaviour (Blair and Stout, 1999; Gabrielsson, Huse and Minichilli, 2007) and an implicit network participation beyond their own enterprise with skill contributions from each stakeholder and a selfless transaction of knowledge to the team specific investments (Blair and Stout, 1999; Blair, 2012). Team members are willing to cooperate, particularly a team-oriented owner who accepts his team role and moves more down to a face-to-face interrelationship, where the principals in the other theories have more restrictions against them. Profit maximisation is one of a broader range of targets. Corporate life, respect, and human satisfaction are further targets. The team approach fosters the stakeholder transaction at eye level, which reduces the CEO’s dependency from the owner. The team approach fosters the independence of the CEO and takes into team production theory a counter position to the agency and stewardship theories. Hence, team production theory could likely optimise the owners’ input into the execution in MSEs. If the two actors have different attitudes in respect to the above-mentioned behaviour, interrelationship dynamics will occur and could have significant potential to stimulate or constrain the innovation capability of the enterprise.

Social conduct differentiates the stewardship theory and the agency theory less. The same is true for the affiliate concentration. Both have as their main objectives the shareholders’ interests (Jensen and Meckling, 1976; Eisenhardt, 1989b) by enterprise wealth maximisation (Madison, Holt, Kellermanns and Ranft, 2016) and can be seen more as complementary theories. The team production theory focuses on the interests of all stakeholders by boosting value added investments in the interests of the team (Blair and Stout, 1999; Blair, 2012; Jürgens, Rupp and Vitols, 2000; Carney, 2005; Huse, Hoskisson, Zattoni and Viganò, 2011) and is hence more a competing theory in respect that the generated wealth will be more collectively distributed. Control (monitoring) is the dominant governance mechanism in agency theory (Argyris, 1964; Davis, Schoorman and Mayer, 1997; Schoorman, Mayer and Davis, 2007) and trust in stewardship theory (Schoorman, Mayer and Davis, 2007; Madison, Holt, Kellermanns and Ranft, 2016). In stewardship theory, the contract and the empowerment for the CEO are built on trust. Team production theory is conceptualised by a nexus of symmetric contracts (Blair and Stout, 1999; Goddard, 2003, Blair 2012), trust and benevolence being practised among the team members. Whilst in stewardship theory and team production theory, trust is a rule that is focused on, agency theory sees it more as a negligible factor that has no influence on rational man behaviour. The “with each other” in stewardship theory (Eddlestone et al., 2010; Schoorman, Mayer and Davis, 2007) and the “for each other” in team production theory support trust more rather than the “against each other” conduct in the agency theory, where the principal belief is that all facts are rationally recorded. In the direct owner-CEO cooperation in agency and stewardship theory the influence is more arbitrary and depends on the behaviour of the owner, whereas a mediating hierarchy approach (Blair and Stout, 1999; Casey and Henderson, 2015, Blair and Stout, 2001) in the team production theory limits shareholders’ influence and hence strengthens the independence of the CEO. Control signals a sign of high-power demonstration, trust the opposite, while elevated on the other side is the owners´ dependence on the CEO. Dependences can generate tensions between the actors and depend, among others, on the team size and the relational dynamics. The discussion regarding shareholder/stakeholder value in this study is difficult and unidimensional. The same is true in respect to trust versus control. No shareholders, no money to finance growth, no content stakeholders, means no resources for growth. Rational and emotional dynamics together in an interdisciplinary approach need balance and openness to change. Trust and control are immediately important and could not be justified unilaterally. These two main points in respect to the social conduct in the three discussed theories deserve to be critiqued. The realities are more dynamic than in the rational world of these theories and often need situational behaviour. The current literature neglects the fact that emotions can influence social conduct within the owner-CEO interrelationship and its effects. In a pragmatic approach, the examined theories are viewed as more complementary than competing, and challenge the owner-CEO conduct.

The nature of the owner-CEO relationship in agency theory is predominantly rational (Jensen and Meckling, 1976; Eddlestone et al., 2010) and functional, dominated and controlled and monitored by the owner (Eisenhardt, 1989b; Shapiro, 2005; Hill and Jones, 1992). Stewards tend to behave more collaboratively and in a mentoring way (Huse, 2005a) in their relationship to their principal; they are less rational and more social (Donaldson and Davis, 1991; Madison, Holt, Kellermanns and Ranft, 2016), and are more committed to each other (Eddlestone, Chrisman, Steier, Chua, 2010), but in a comparable manner functional, rather than team production theory, where the team members have a disposition to behave social-professional, where everyone brings their core competence and knowledge to the team and follows a common team spirit (Blair, 2012; Gabrielsson, Huse and Minichilli, 2007; Huse, Hoskisson, Zattoni, Viganò, 2011; Cruz, Howorth and Hamilton, 2012). This team spirit is revealed in the interrelationship modus (Neuberger, 2014) in the team production approach as an exogenous cooperation, in the stewardship theory as a more endogenous cooperation, and in agency theory in conflict and competition modus between the participants that separately challenge the owner and the CEO. Team members are seemingly aware about their interaction to improve the collective team approach and tend to act independently, but with awareness to act dependently (Cohen and Bailey, 1997; Bettenhausen, 1991), because they likely know that only together is it possible to add value. Agents and stewards tend to interact more dependently to their principal in their vertical hierarchy approach and less on eye level, whilst the steward search tends to look for a nearing dyad (Cruz, Howorth and Hamilton, 2012). It seems that an agent interacts in a clinical egoistical manner, which has significant impact on the interrelationship quality (Schillemans, 2013). The principal-agent relationship seems to be more vulnerable than the steward-principal relationship, where the actors endeavour to improve the quality of the interrelationship. On the other hand, it seems that the relationship among the team members in respect to the team production theory in their vertical hierarchy structure is more resilient (Cohen and Bailey, 1997), and in its intended period, longer lasting (Huse, Hoskisson, Zattoni and Viganò, 2011), similar to agency and stewardship theory but with conditions. The interrelationship conduct is a social conduct and should not only be seen as an economic nexus of contractual relationships (Macneil, 1980; 2000; Huse, 1993). I argue that the contractual contents in an owner-CEO dyad are quickly forgotten and that the daily, common situations dictate the dynamics in the dyad, which the above-mentioned theories focus on less. The vulnerability and dynamics of relations are not to be underestimated, whereas the three theories ignore this, and hence emotional influence is pushed aside. The desire in team production theory of a horizontal hierarchy stays as a desire in practice. The owner in an MSE is the boss of the CEO. He or she decides about the continuance in the enterprise and this circumstance is not neglected, which is also more different than in big enterprises, where the ownership has less influence on the daily operations. All three discussed theories have less focus on long-term interrelationship influences on intra-personal-attachments and their dyad dynamics inside the owner-CEO-interrelationship. Potentially, this needs the CEO in the dyad to have future viability. He/she needs perceived safety to act. To get an insufficient feeling from the owner is counterproductive for the performance of the CEO and could constrain the innovation capability.

The situational conduct in respect of innovation-near approaches also differs among the three reviewed theories. While agents tend to reduce the cost of the organisation (Madison, Holt, Kellermanns and Ranft, 2016), the steward is inclined to enhance the firm performance

(Corbetta and Salvato, 2004; Madison, Holt, Kellermanns and Ranft, 2016), which could have financial objectives, but also non-financial ones (Westhead and Howorth, 2006). On the other hand, focusing the team production economic approach on long-term welfare for all stakeholders (Blair and Stout, 1999; 2001; Zahra, Nielsen and Bogner, 1999) demonstrates a more positive increasing innovation propensity (Gabrielsson, Huse and Minichilli, 2007). The agent tends to innovate within a financial background. While innovation supports the enterprise’s profit in the long term (Miozzo and Dewick, 2002), it is welcome in the short- term to reduce costs, and hence innovation activities can become victims of cost-cutting in agency theory. Often, family involvement in a stewardship environment supports and recommends enhancing the innovation performance (Liang et al., 2013; Craig and Dibrell, 2006; Dibrell and Moeller, 2011). These situational challenges of innovation test the owner-CEO interrelationship and hence have a potential to stimulate or constrain the innovation capability. If there is no common attitude within the interrelationship to necessary investments to improve the innovation capability, tensions are inevitable, and this could lead to desperation by the CEO, which may end in demotivation and frustration and thereby have a significant potential to influence the innovation capability.

The interests of owners of MSEs’ are not limited to control and conflicts minimisation with their CEO in order to enhance their wealth. The sustainable preservation of the enterprise and their competitiveness are also immensely important. Consequently, the competence of the CEO to lead the enterprise in this situation is a big concern (Schulze, Lubatkin, Dino, Buchholz, 2001) for the owner. On the one hand, it is the objective technological competence of the CEO and the industrial specific knowledge, and on the other hand the interpersonal skills to lead the enterprise successfully that is vital. The latter is revealed as a huge challenge and seems to me more complex than the technological competence. The interpersonal corporation, with its interrelationship dynamics with key employees in the organisation, is quite important and contains conflict potential, which could possibly influence the innovation capability. This interrelationship quality will transmit into the whole organisation and find its roots within the owner-CEO interrelationship as a role model. A pure rational owner-CEO dyad seems likely to be an illusion. A consciousness of emotional skills and an empathy occur as essential in a solid interrelationship and open space for further interrelationship influences that are not observed in the three corporate governance theories.

Agency theory, stewardship theory and team production theory highlight different interests of top managers in large public enterprises and depict how interests may diverge from those of their owners. Entrepreneurial commitment and family involvement as owners are less inquired about in the above-mentioned theories, as they are common in German MSEs. As a psychological as well as a cognitive approach, the family, management and entrepreneurship each present an ideology: paternalism, managerialism, and entrepreneurialism, which will be justified in the next section.

2.3 Enterprise Ideologies

Enterprise ideologies are a further variation in the owner-CEO dyad. Enacted ideologies in different business cases are positioned against an alternative approach to the study of corporate governance processes in order to analyse the owner-CEO interrelationship and its potential influence on the innovation capability. Agency, stewardship, and team production theory have examined the owner-CEO interrelationship under an individualistic, opportunistic, and collectivist pro- organisational approach, without any reflection on ideological differences like entrepreneurialism, managerialism and paternalism (Johannisson and Huse, 2000). These ideological differences are part of the examination and will be reviewed in order to present influences within the owner-CEO interrelationship on the innovation capability. The focus of this section is to investigate the literature about how various ideologies have potential to influence the innovation capability in German MSEs.

The section begins by a definition of ideologies in respect to the enterprise. The following section will then review differences in the contrasting ideologies: entrepreneurialism, managerialism, and paternalism, and will evaluate the differences between entrepreneur, manager, and patriarch in respect to the owner´s ideology.

2.3.1 Ideology

The Oxford Dictionary conceptualises an ideology as a system of ideas and ideals, especially one which forms the basis of economic or political theory and policy, and as a set of beliefs characteristic of social groups or individuals. An ideology is an "ism", a belief system with a cognitive content held to be true, a shared set of common ideological beliefs and practices, and a set of ideas that constitute goals, expectations, and actions as a comprehensive vision and a way of looking at things (Locke and Spencer, 2011). An ideology may be distinguished by the extent to which it serves to maintain relationships of power and domination (Deem and Brehony, 2005). Broad consent in respect to ideology is that scholars tend to favour the definition that an ideology´s concern is with configurations of ideas.

The basic condition of ideologies is subject to the owner-CEO interrelationship influences, and between different behavioural conditions of entrepreneurs, managers, and patriarchs. A CEO and an owner with a managerial, paternalistic or entrepreneurial behaviour have conceivably different conduct in the structuring of activities, resource control, business context, time perspective, core competencies and success criteria (Johannisson and Huse, 2000), and could have an ostensible impact and relevance to the governance behaviour of an organisation and hence possibly to the innovation capability of the enterprise.

Johannisson and Huse (2000) discussed ideology as a lens through which its members see reality and make it intelligible, and define ideology in their study as a consequent and permanent way of perceiving and appreciating the world that, accompanied by psychological commitment, generates a specific mode of conduct. (p. 5). Ideologies will be determined by the acting person. The basic condition of action has a twofold character of equality and distinction – as human plurality (Arendt, 1958). To act, in its most general sense, means to take an initiative, to begin, to be proactive, to set something into motion, to innovate, and it is a trait of the human condition and derives from the individual behavioural approach. The approach to the study of entrepreneurship treats the individual as viewed in terms of activities undertaken to enable the organisation to come into existence or into renewal (Gartner, 1985; 1988; 2001). This applies to entrepreneurial, managerial, and also paternalistic behaviour in any and every possible way. The current thesis defines ideology as a system of ideas and ideals which forms the basis of economic policy, as a set of characteristics and as a collective confidence, and supports self-enforcing norms that produce certain behaviour of the acting persons - the owner and the CEO - and which is dynamic over time. Different ideologies will be explained in the next section.

2.3.2 Entrepreneurialism and the Entrepreneur

The history of entrepreneurial research is close to 100 years old. The definitions, samples, and characteristics of entrepreneurs that occur out of the historical research are sheer and infinite (Gartner, 1988; 2001). The phenomenon of entrepreneurship is entangled with a complex set of contiguous and overlapping constructs. Ludwig von Mises (1940) declared the entrepreneur as a user of odds, Josef Schumpeter (1934) a few years before as the innovator. Frank H. Knights (1921) defines an uncertainty bearing as the nature of the entrepreneur, whilst Mark Casson (1990) justified the entrepreneur as a coordinator. Hayek (1937) and Kirzner (1988) create the entrepreneur as middleman and arbitrageur. These are only some static definitions of economics of the last century in respect to the "Dasein[9]" of the entrepreneur (Gartner, 1988). Reality depicts an entrepreneur in practice more in a hybrid function than in one particular definition, and in a more dynamic situation. From this reasoning, Gartner (1988) recommends further studies: research on entrepreneurs should focus on what an entrepreneur does and not who the entrepreneur is, and should be focused more on a dynamic approach with a pragmatic impact. Current researchers like Fauchart and Gruber (2011) pointed out in their study in respect to the role of founder identity in entrepreneurship, that one of the most remarkable characteristics of entrepreneurship is that it provides individuals with the freedom to pursue their own goals, dreams, and desires in a new creation.

The social identity theory (Tajfel and Turner, 1979; 2004) serves equally as a platform to analyse and conceptualise the entrepreneur's self-conception, self-perception and how they affect their enterprise. The human self-conception and self-perception is generated out of social interaction. Social identity deals with the structure and function of identity as it relates to an individual´s social relationship, and to his/her membership in groups or social categories applicable to the owner-CEO interrelationship and their common enterprise. Several key elements are essential to contemporary understanding of the social identity. First, the personal symbolic interaction with other, second, levels of inclusiveness, the relation between acting in terms of individual goals, ambitions and acting in terms of social motivations associated- and third, making predictions about behavioural choices and human actions (Fauchart and Gruber, 2011) are related to the enterprise ideology. The entrepreneur takes over an inventor role (a passion for activities such as exploring new opportunities), a founder role (a passion for activities related to

[9]Philosophical terminology: "Dasein" means being, existence

opportunities exploitation), and developer role (a passion for activities related to growing an enterprise) identity (Csikszentmihalyi, 1994; Sternberg and Kaufman, 2018). In respect to the innovation capability, all three roles could bear the potential of influence.

Johannisson and Huse (2000) justify entrepreneurialism as organic organising of internal and external resources with visionary abilities and spontaneous actions, where willpower and intuition guide product and market development. Networking is based on trust, which reduces transaction costs and enhances learning and access to business prospects. The structuring of activities is realised in flat organisations and self-organising groups, including customer ties. External events are amplified by their own internal and synchronised actions, whilst time is perceived as a continuous flow. Short-term planning and frequent follow-ups are the order of the day. To generate the cash that is needed to maintain the venturing process reveals the success criteria of entrepreneurialism ideology. To create new lines of business emerges as the actual business context. Zahra, Neubaum and Huse (2000) underline that entrepreneurialism embodies an enterprise´s innovation activities and the importance for organisational renewal, creation of new business, and improved performance.

Carland, Hoy and Boulton (1984) define an entrepreneur as an individual who independently owns and actively manages a small business and stands in coherence with the German civil law code (BGB §14), which defines an entrepreneur as an individual or legal entity in execution of their commercial purpose or independent activities. An entrepreneur will be defined as a risk-taking, innovative person who establishes and manage a business for the purpose of profit and growth. In this thesis, the entrepreneur is defined as an individual who is primarily business-oriented and hence focused on profit or growth in an industrial environment, and is an acting person, in contrast to a manager, who is more an administrative person. An entrepreneur in a German MSE takes over the model role in respect to innovation activities in order to force the organisation to relate to these activities. He/she is a risk-taking, proactive, innovative person who establishes and manages an enterprise for the purpose of profit and growth, which delivers quantifiable results out of defined and realised activities.

2.3.3 Managerialism and the Manager

A manager is a person who is responsible for controlling or administering an organisation or group of staff (Oxford Dictionary, 2014), whilst managerialism is an ideology that believes that commercial management principles have the answers to all organisational problems. Locke and Spender (2011) argue that managerialism is grounded in the practical mechanics of Tayler´s (1911) “Principles of scientific management”, as a new form of instrumentality premised on numbers and generated as internal operation, financial, and cost data, which produce a special kind of efficiency as a utilitarian conception (Trank, 2014). Managerialism resides in managers’ self-conception, who believe that they are a professional caste (Locke and Spender, 2011), in the sense of being a division of society based on differences of wealth, rank of privilege, profession, and occupation. “Managerialism justifies the application of managerial techniques, mostly gained through training in a business school, to all areas of society on the grounds of superior ideology, expert training, and the exclusive possession of managerial know-how necessary to efficiently run corporations….” (Klikauer, 2014, pp. 2-3). Current managerialism representatives (managers) generalise a common, special business language to clarify their class and status (Deem and Brehony, 2005). The manager type was born in the USA and stands in the USA in close relation to agency theory, in comparison to Germany, where trade unions fight for their right of co-determination and stewardship theory is more evident. For example, in German MSEs the enterprise is multiply viewed, not simply as a bundle of shares with a market valuation but as an entity that owes commitment of continuity of family ownership, employee contributions, and community embeddedness alike (Trank, 2014).

Managerialism means the structuring of the activities of various functional areas, as well as separating design and execution in time and space. The role of the board is formalised and mediates planning routines with professional management skills (marketing, finance, production, and human resources) as core competencies in managerial technology and relevant experiences. Internal and external dependences are controlled by contractual agreements. Systematic outsourcing of all non-core competences is permanently an opportunity. Uncertainties in the environment are reduced by way of several institutional arrangements, such as adherence to industry and professional norms and the adoption of a management vocabulary. Managers try to imagine that the environment is knowable, which means that superior technology is assumed to deliver needed competitiveness. A clear focus on market segments and time management is mandatory to reach a status with a significant potential and influence in the segment. Current activities are structured in order to build a platform for future offensives. They continuously have to prove themselves by providing owners with reviews containing numbers and figures showing returns on investments, and generally adopt the norm that quantitative growth is the indicator of success (Deetz, 1992; Johannisson and Huse; 2000, Johannisson, 2000). Klikauer (2014) defined that "managerialism justifies the application of managerial techniques to all areas of society on the grounds of superior ideology, expert training, and the executive possession of managerial knowledge necessary to efficiently run corporations and societies…" (p. 2).

Administrative managerial action in respect to the innovation capability of German MSEs seems to be definitely essential. A manager is hence a person who is leading and controlling a company with an administrative assignment and professional management tools in order to generate profit and a return on investment for shareholders.

Managerialism is hence the belief that commercial management principles have the answers to all organisational problems.

2.3.4 Paternalism and the Patriarch

Paternalism is conceptualised as the policy or practice on the part of people in authority of restricting the freedom and responsibilities of those subordinate to or otherwise dependent on them in their supposed interest (Oxford Dictionary, 2014). The Stanford Encyclopaedia of Philosophy (2014) defines paternalism as the interference of an individual with another person against their will and is defended or motivated by a claim that the person whose will is interfered with will be better off or protected from harm. At a theoretical level, it raises questions of how persons should be treated when they are less than fully rational. Paternalism involves some kind of limitation on the freedom or autonomy of some agent and it does so for a particular class of reasons. In a business setting, paternalism appears in clan structures where the hierarchy is structured by seniority and kinship ties, restricted by traditions, and reflects basic property rights (Johannisson and Huse, 2000). The meaning of the business life is the creation of a safe basis for the family, which implies claiming a controllable niche for the operations of the firm. In this, everyday life becomes as important as maintaining traditions and building a future for generations to come. The competences needed for this kind of endeavour are embedded in the personal histories of the family member and of further confidants of the firm (Johannisson and Huse, 2000). The dominant objective of the family is to keep the business within the family. The activities are structured by seniority and equality between different parts of the extended family basis for functional organisation, and the core knowledge is socialised into the extended family members. The ownership of the company area is the major symbol of resources. The approach to new markets and technology is slow and hesitant. There is a dominant anxiety to not lose the current status and wealth, which should serve the family members and future generations and establish their prominent role. The time perspective is long-term oriented, with as much concern for the heritage from the first generations as for coming generations. Hence, the success criterion is to ensure that the family business remains in the family (Johannisson and Huse, 2000).

Paternalism is conceptualised as an ideology and a leadership style in which a male[10] leader uses his power to control, protect, punish, and reward in return for obedience and loyalty from his employees, followers, or subordinates. The leader acts like a father towards those who are not their children in order to promote their well-being or protect them from harm. As a behavioural pattern, it may or be may not justified under the circumstances and may be a violation of a moral rule of conduct when it limits an adult´s right to self-determination (Business Dictionary, 2014).

In the Western hemisphere, the notion of paternalism was created at the end of the 19th century and discussed, in respect to business structures, the understanding of hierarchal dimension. The owner of the enterprise is the “absolutistic” sovereign in the enterprise and provides indirect relationships in a private and professional social context. The principle and practice of paternal administration, government as by a father or mother, is the claim or attempt to supply the needs or to regulate the life of an enterprise in the same way as a father or mother does to their children (Pfeiffer, 2011).

In this study, paternalism is defined as an ideology where the leader of an enterprise stands on top of the enterprise hierarchy with absolutistic scope of action, with the superficial success criterion of keeping the business in the hands of the family for the succeeding generations. The leader uses their power to control, protect, punish, and

[10] Traditional male leaders represent paternalism. In a contemporary world, more and more females take over this role and do this, too. The literature shows no significant studies in respect to maternalism. When the researcher in this study justifies paternalism, there is no difference if a woman or a man is the leader. The notion of paternalism stands here for an ideology which is not gender specific.

reward in return for obedience and loyalty from their employees, followers, or subordinates, in order to reach their own goals.

The owner's and CEO's behaviour are influenced by the three different ideological conducts - entrepreneurialism, managerialism, and paternalism - and could have potential to influence the innovation capability in German MSEs. Johannisson (2002) pointed out that having just one ideology is only possible in theory and that a plurality of ideologies in a pragmatic approach is more realistic, while a separation of these three ideologies seems to be an illusion. It is more likely that organisations have multiple competing ideologies in practice. A mix of two or maybe all three ideologies seems to be possible and likely; this can change over time and underlies situational and social dynamics, and it is only imaginable to speak about one dominating ideology with its interpenetration in adjacent ideologies. It is obvious that the interplay between owner and CEO is influenced by the ideological orientation of the actors and bears potential to stimulate or constrain the innovation capability of the enterprise.

2.4 Conclusion

This chapter was divided into three main fields of literature. In the **First Section**, the current status of science in respect to innovation and innovation capability depicted the necessity of innovation in German MSEs. It shows that owner and CEO have a significant influence on the innovation capability of the enterprise and reveals the dyad as the nucleus of creativity. Individual characteristics and behaviour of the owner and the CEO have a significant potential to influence the innovation behaviour of the entire enterprise. In the **Second section**, the chapter moved on to explore current knowledge in the owner-CEO dyad as part of corporate governance research. It focused on the agency theory, stewardship theory, and team production theory, highlighted differences in the three examinations and focused on a comparison between the three theories.

Individual, social, relational, and situational conduct were discussed. The owner-CEO relationship stands under observation and shows potential of influence. The three major theories frameworks do not focus on dyad dynamics and on emotional influencing factors (Etzioni, 1988; Bohmann, Hofbauer and Schülein, 2014; Hedtke, 2015; Mikl-Horke, 2015), which this thesis is focused on. Whether the theories are applicable in MSEs in the same way as in big enterprises remains debatable. **The Third Section** was the theory of the various ideologies reviewed, where I expected variations within the owner-CEO dyad. Differences between entrepreneurial ambition, investors' involvement and family participation were discussed, which have an ostensible potential to influence the innovation capability through the owner-CEO interrelationship. Characteristics of the three possible enterprise ideologies were debated and reveal different structures of activities, resource control, business context, core competencies, time perspectives, and success criteria of the CEO and owner within the enterprise.

This research has the objective of developing a theoretical and pragmatical contribution that reveals potential influences of the owner-CEO interrelationship on the innovation capability of German MSEs. The three above-listed main literature fields of interests indicate a presumable rational influence of the owner-CEO interrelationship on the innovation capability. Consequently, the overarching research question that this thesis seeks to answer is: How does the owner-CEO interrelationship potentially influence the innovation capability of medium-sized technology enterprises? The main focus of this research will examine the owner-CEO interrelationship and identify potential entities that stimulate or constrain the innovation capability of the enterprise through the owner-CEO interrelationship. The interrelationship could also contain, beyond rational factors, emotional influencing factors and dynamics that are less examined in the above reviewed literature.

The next chapter will focus on the methodology of how attempts to find answers regarding the conceivable owner-CEO interrelationship influence the innovation capability in German MSEs. The method focuses on identifying different cases where I was expecting variations in the owner-CEO interrelationship in German MSEs.

2.5 Scientific Implication

The results of this study have implications both for the CEO´s and the owner's interpretational role in the management and ownership of organisational innovation challenges and corporate governance, and for further research on such innovation influences.

First, this research provides a new perspective in respect to the influences of the owner-CEO interrelationship on the innovation capability of German MSEs. Previous researchers have had their focus more on the behaviour of the top management (Davis, Schoorman and Donaldson, 1997), focused on psychological and situational mechanisms, and have tended to look at the internal workings of the enterprise and ignored the influences of the owner-CEO interrelationship. Governance researchers and researchers in psychology and sociology have extensively studied agency theory (Jensen and Meckling, 1976), stewardship theory (Davis, Schoorman and Donaldson, 1997), and team production theory (Blair and Stout, 1999),which depicts top management, particularly in large modern corporations, under different motivational (Hall and Lindzey, 1957; Procter and Vu, 2006; Gregory, 2004) aspects, never with the emphasis on innovation capability and interrelationship influences.

In this thesis, I propose different psychological, sociological, and situational interrelationship influences. An interest of the study is to bring agency theory, stewardship theory, and team production theory face to face with varying ideologies. This research has its focus on the owner-CEO interrelationship and opens up for further research additional research windows of influence into the organisation.

The current study **secondly** examines the potential influences of various ideologies on the owner-CEO interrelationship in a different aspect than other scholars (Johannisson and Huse, 2000) have done, and reveals that the personalised embodiment in the enterprise, the owner-CEO interrelationship, has a significant influence on the innovation capability of the entire organisation through interrelationship influences. By examining various ideologies under different owner structures, using qualitative approaches in real business cases and involving owners, CEOs and area managers, we can better understand the conceptions and misconceptions that owners and CEOs hold about their interrelationship support in German MSEs. This should generate interest in further research under a more dynamic approach.

Third, of further interest to enlighten the individual pattern and procedures are the differences of psychological and cognitive distinction between owner and CEO. These differences are not to be underestimated. Business is mostly rationally oriented. Numbers stand in the foreground. Individual interests are often conceptualised as rational or moneyed interests. The emotional influences of interests are rarely considered. This study is primarily focused on the social and situational interrelationship influence factors that shape the owner-CEO interrelationship and thus seeks answers and contribution to knowledge.

Chapter 3

3 Methodology

This thesis develops an in-depth description and analysis of the three cases in respect to the owner-CEO interrelationship influences on the innovation capability and identifies whether social and situational influences have potential to influence the innovation capability of the enterprise. The chapter begins **firstly** with the general philosophy and methodological paradigm statement underpinning the research. The **second** section moves on to present the researcher's social situation to the phenomena under examination and moves on then to present, in Section T**hree,** the research design. In Section **Four,** I explain the data collection methods in detail and provide in Section **Five** an overview of the kind and the nature of data and the interviewing strategy. Section **Six** then moves on to consider the analytical approach of this study. Section **Seven** offers the ethical consideration of this study, which is aligned to the ethics of the University of Bradford. This chapter ends, finally, in Section **Eight,** in the conclusion section.

Research design should take account of epistemology and should understand the philosophical concern, and hence formal research design needs to focus on different issues (Easterby-Smith, Thorpe and Jackson, 2011): a methodological research strategy linked to the nature of knowledge, the research question formulated and the context of the research (Silverman, 2005).

3.1 Philosophical and Methodological Perspective

This section offers an overview of the applied principal epistemology and ontology that is primarily used in this social research and how the epistemology and ontology lead to, and are expressed in, different ways of conceiving and undertaking the present study.

3.1.1 Ontological Standpoint

Pragmatism ontology is my predominantly adopted ontological standpoint for this thesis. It was established in the late 19th century by Charles Sanders Peirce (Gronow, 2011). Essentially, practical consequences or real effects are the important components of meaning and truth. Truth is determined by context and interpretation. Pragmatism views knowledge as transitive: what is true will shift over time. Our social constructions are bounded by the tolerance of an external reality that exists independently of our cognitive processes (Johnson, and Duberley, 2010). Reality exists and acts independently of human activities, and therefore reality is not endlessly submissive in respect to the vicarious play of the transitive language games, metaphors and paradigms deployed by human agents (Johnson and Duberley, 2010, p. 157).

The more contemporary pragmatism scientist Richard Rorty (1979, 1983) argued that knowledge is not and cannot be the result of the mind´s eye, looking at a reflection of the world in a mirror located in the mind. Instead he advanced the idea that knowledge will be socially justified if it is supported by the pragmatic consensus of people in mutually intelligible linguistic communication within a specific community (Johnson and Duberley, 2010). Rorty (1979, 1983) came to the final position that truth is a changeable artefact.

William James (1994) considered thought as an instrument for problem solving and action, and was convinced that knowledge, concepts, meaning, and science are best viewed in terms of their practical use and success. The concept of truth follows a process of verification, direct or indirect, and finds reality in results from practical acting and not from visions and missions. Hence, success defines what is true and what is not (James, 1994). James intimates that communication is an important mechanism to evaluate thoughts and realities, and is a crucial instrument for action (Gronow, 2012). In the context of business generated out of a concept by verification, a performance and hence a result is revealed in the outcome, which will enable me to evaluate the owner-CEO potential influence on the innovation capability.

3.1.2 Researcher´s Epistemology

The epistemology behind this study is focused on practical applied research and integrating different perspectives to help interpret the data (Easterby-Smith, Thorpe and Jackson, 2011). Observable phenomena and subjective meanings can provide acceptable knowledge, depending upon the research question (Gill and Johnson, 2010, p. 191). Knowledge under the pragmatic consensus will be socially justified of people in mutually intelligible communication within a specific community. The idea is that reality is determined by people rather than by objective and external factors. Reality is verified by its pragmatical success (James, 1994). Social scientists do not measure how often certain patterns occur but appreciate the different constructions and meanings that people place upon their experience. The focus lies on what people, individually and collectively, are thinking and feeling, and attention should be paid to the ways they communicate with each other, whether verbally or non-verbally (Easterby-Smith, Thorpe and Jackson, 2011).

A multiple case study research was chosen because it helped to be understood through interactions with others in the social process (Starks and Brown Trinidad, 2007), and tried to develop an in-depth understanding of different single cases or to explore an issue or problem using the case as a specific illustration (Creswell, 2013). Multiple case study research involves the examination of different cases within a real-life, contemporary context or setting (Yin, 2009), and stands in close consensus to the pragmatical approach, which has enabled me to find in three different cases with different ideological orientations an answer to the research question. This methodology will generate an in-depth understanding through data rather than through prior hypotheses, and it will be identifying no single site at the outset, but will rather use a process of theoretical cases of successive sites' sources, selected to test or to refine new ideas as they emerge from the interview and observation data (Silverman, 2013, p. 73).In this thesis, three real-life, contemporary bounded cases are explored over time, through detailed, in-depth data collection, involving multiple sources of information, interviews, observations, audio-visual material, documents, and reports.

3.2 Researchers´ Social Situation

The particular research questions being explored in this thesis arise directly from my own experience of almost fifteen years as an owner and manager of MSEs. This started with eight years' responsibility for a strategic investment entity in the airport construction business as CEO, with no shares in the company and with a varyingly responsible board of director members who represented the ownership structure. This was followed by a spell of six years as a minority owner and CEO of two German MSEs in a machine tool building enterprise and automation segment, with different financial investors and changing approaches after a switch of the majority owner. Today I am the owner of a few financial and trade interests in different segments of German MSEs, and the CEO in an engineering office. It would be naive to believe that my experience does not bring many inevitable biases, prejudices, and stereotypical perspectives to the phenomena under study (Silverman, 2013; Creswell, 2013). While the research question and the interest of this study emerge partly from these interests and experiences, I am aware of the need to ensure the findings and theoretical contribution are exclusively manifested out of the generated data from the involved participants.

3.3 Research Design

The multiple case study design of three different enterprises seems to be the most appropriate method to analyse the potential owner-CEO interrelationship influences on the innovation capability in MSEs under three different dominating ideologies and enabled me to find answers to my research question. Hence, cases were selected that provide differences in the dominant ideology. Three cases provide data to examine and illustrate the interrelationship complexity (Creswell, 2013). A theory building (Eisenhardt, 1989a) approach is used with the aim of developing inductively an in-depth understanding of three single cases through qualitative analysis of the data.

The qualitative research design is led by the main research question, specified in Chapter 2, and by the scope of the thesis (Figure 1): interrelationship, ideologies, and innovation capability. Agency theory (Jensen and Meckling, 1976), stewardship theory (David, Schoorman and Donaldson, 1997), and team production theory (Blair and Stout, 1999) provide a solid scientific basis for the study. Contrasting ideologies of the ownership structure (Johannisson and Huse, 2000) within family firms, investor-owned entities and other ownership constellations in German MSEs could also likely influence the conduct and togetherness between owner and CEO.

3.3.1 The Participants' Profile

Interviews were conducted with one owner and one CEO from each case. Additional interviews were held with individuals (advisors, second tier managers[11], and persons in close contact) who might provide

[11] Second tier managers are persons who report directly to the CEO in the enterprise and could have direct relations to the ownership and have strong interrelations

an alternative perspective on the specific phenomenon being explored. Table 2 provides a list of all the interviewees.

Table 2: Participants' profile

	In enter-prise since	Current position since	Age	Gender	Qualification of the field expert
Entrepreneurial owner (Case A)	1999	2005	50	male	Information scientist
Entrepreneurial CEO (Case A)	2001	2001	50	male	Engineer
Entrepreneurial advisor (Case A)	2005	2005	56	male	Master of business
Managerial owner (Case B)	2000	2009	62	male	Management expert
Managerial CEO (Case B)	2010	2010	46	male	Master of business
Managerial advisor (Case B)	2007	2007	57	male	Master of business
Managerial 2ndtiermanager (Case B)	2007	2007	58	male	Master of business
Paternalistic owner (Case C)	1980	2008	74	male	Master of business
Paternalistic CEO (Case C)	2008	2008	42	female	Master of business
Paternalistic advisor (Case C)	2013	2013	56	male	Engineer

From the ten interviewed individuals, there was one female and nine males. The low number of female participants could result from the technological focus in the selected enterprises (IfM, 2014; 2016). The female participant enriched this study. The owners were all over 50 years old, with the median age being 62 years. The youngest was 50 and the oldest 74 years old. The youngest CEO was 42 and the oldest 50 years old, hence the average CEO age was 46 years old. The oldest advisor

with the CEO, and so are able to give an opinion on the owner-CEO interrelationship and thereby help to give a more objective view of the description of the owner-CEO interrelationship; this helps the researcher to get a triangulation on the examined phenomenon.

was 57, the youngest 56, hence they were a similar age, like the owners. Consequently, the youngest participant was 42 years old and the oldest 74 years old, which was the management team of the paternalistic dominated enterprise. The average age of all participants was 55 years.

The CEOs had been around nine years, on average, in their position, whilst the owners had held their position for eight years in the examined enterprise, and so for a relatively equal period of time. The longest stay (35 years) was by the paternalistic dominated owner in the examined enterprise. The owners had stayed for 22 years in the medium, while the CEOs in the medium had stayed for eight years. On average, all participants had stayed for ten years in the enterprise and eight years in their current position. Seven of ten participants had an economics education and only three participants had a technological graduation. Two of the three technology educated participants belonged to the entrepreneurial oriented enterprise. The third one was an advisor in the paternalistic oriented enterprise. Nine of the ten participants had a high school graduation, one participant had professional training. The majority of the participants were male, had education relating to economics, and all participants were older than 42. Younger people were not represented in the three cases under examination in the top management. Principally the participants were male, mid-fifties, business people in the examined technology-related enterprises.

3.3.2 Case Selection

In qualitative research, case selection depends on five effects (Morse, 2000), namely the scope of the study, the nature of the topic, the quality of the data, the study design, and the use of shadowed data. The approach involves the use of purposive case selection methods to recruit cases and participants who have experienced the phenomenon under study. It relies on (theoretical) sampling, recruiting participants with differing experiences of the phenomenon so as to explore multiple dimensions of the social process under study (Starks and Brown Trinidad, 2007, p. 1374 – 5). I chose three cases finally, out of more potential cases that I knew from my professional life, which I observed over a longer time and who could fit the preferred cases with contrasting dominated ideologies that potentially might have different perspectives on the interrelationship and innovation capability (Creswell, 2013).

On the basis of my many years of experience I had a relatively wide knowledge of German medium-sized technology enterprises. Sometimes I knew the CEO, the owner, advisors, or senior managers. I contacted them in a personal meeting or on the phone and explained my endeavour; I interviewed them shortly after to find out if they were interested in the study. Various potential participants had no real interests, no time, or other reasons to join, and not all enterprises fitted the parameters. The finally selected cases had a clearer orientation towards one dominant ideology and an available owner-CEO dyad (Yin, 2009).I aimed to avoid cases that might have a confusion of ideologies because this would over-complicate the analysis. In the beginning there were seven enterprises and initial meetings were held with each of them. Four enterprises had a more managerial dominated ideology, two a dominant entrepreneurial ideology, and one a paternalistic dominant ideology. The selection of the entrepreneurial enterprise was easier in respect that one of the selected enterprises was not willing to support the whole examination, because of too big a workload. The selection of the managerial enterprise was more difficult. One enterprise was busy with a merger project, another lacked chemistry in the interview and was difficult and in a third, I doubted that the owner would take the project seriously enough. Finally, three cases were selected (Asmussen and Creswell, 1995): a typical family enterprise with a paternalistic oriented structure, a managerial oriented enterprise, and an entrepreneurial oriented enterprise. Two of the three cases I knew before, one came from the suggestion of another owner. These three selected cases did help to explore the real-business dynamic and the owner-CEO interrelationship, involving multiple sources of information, as detailed below.

3.4 The Data Collection Method

The objective of this study is to contribute to a theoretical understanding and hence a conceptual model of how the owner-CEO interrelationship potentially influences the innovation capability, particularly in MSEs. The intention is to develop or discover a theoretical relational model or abstract analytical schema of the phenomenon (owner-CEO interrelationship) that relates to a particular situation, -rather than the description or application of existing theories (Silverman, 2013, p. 67). Data collection needed to be extensive and draw on multiple sources of information (Creswell, 2013; Yin 2009). The intent of this qualitative research is not to generalise the information, but to elucidate the particular and the specific (Pinnegar and Daynes, 2007). I followed Yin (2009), and in addition to interview data, I collected observations and secondary data on the case studies. I was interested in eliciting the participant´s definitions of terms, situations, and events, and trying to tap into his or her assumptions, implicit meanings and feelings, and tacit rules (Silverman, 2013). This study reflects the developmental experiences of majority owners, minority owners, CEOs, business advisors and second tier managers. Interviews were held with ten individuals in total (three to four in each case), accompanied by observations and document analysis (Creswell, 2013). The qualitative data were collected under the best practice of gaining permissions, case selection, recording information, storing the data, and anticipating ethical issues that may arise (Creswell, 2013, p. 145), as detailed in the section below (Ethical Considerations). Each individual participated in one to three interviews with the same interviewer. A structured interview protocol was designed to ensure continuity across the interviews. Through constant comparative analysis (Creswell, 2013), the researcher modified questions in order to explore emerging issues that related to the research question. Field notes were maintained during each interview.

During the selection of the cases, and in getting to know the participants, pilot interviews were initiated to convince the participants and also to test the right interview structure. The beginnings of the first semi-structured interviews were quite confusing, but this helped me to concentrate on the essentials. These ‘getting to know interviews’ were not used for the analysis, but just to help with the structure. These meetings were quite different, and differentiated by a brief discussion between two meetings and an invitation for lunch; they took from 10 minutes to more than two hours. The final interviews ranged from one to two hours each and were conducted as semi-structured interviews, recorded and transcribed. The structure of the interviews followed five different categories, all according to how the owner-CEO interrelationship could potentially influence the innovation capability: social interrelationship conduct, individual owner-CEO interests that affect the interrelationship, exogeneous influences within the interrelationship, ideological differences, and individual and collective actions that support innovation capability. In connection with the semi-structured interviews, a questionnaire was necessary to characterise and specify social, psychological, and situational interrelationship influences. The interviews were guided by field notes and observational protocols to identify emotions that have potential to influence - by the owner-CEO interrelationship - the innovation capability. Especially through enterprise sightseeing tours and closer examinations of the structured interview questions, field notes about the real-business observations were quite revealing and substantiated the evidence of participants’ statements in order to identify the impact of everyday mutual emotions. Emotions are an integral and inseparable part of organisational life (Ashforth and Humphrey, 1995), and in respect to the research question are likely functional. The fieldnotes supported the recorded interviews by providing data on the interviewees’ actions and behaviours (Ngonyo Njoroge and Yazdanifard, 2014). Mainly, the interviews followed their pre-structure except for one interview, which started quite confusedly and unstructured. In this case, it was quite difficult to get the given structure back. After transcript and analysis of the data, ambiguous statements were checked with the interviewee. But generally, the given structure was open enough to allow the interviewees to provide in–depth answers and explanations that expanded on the original research question. While some interviews might have started cautiously, after a period of time the interviewee-researcher relationship got deeper and the interviewees became more open.

3.5 The Nature of Data

Transcripts, field notes, and, if available, documents like annual reports, strategic documents, enterprise brochures, and internal strategic action plans were examined. A set of reliable data was necessary to generate a theoretical model from the evidence (Creswell, 2013) of the owners, CEOs, advisors and second tier managers. The intent in this study was to elucidate the particular owner-CEO interrelationship that might potentially influence the innovation capability of the enterprise and not to generalise (Pinnegar and Daynes, 2007). An ongoing interaction between researcher and data was necessary (Suddaby 2006) and practised progressively.

3.6 The Analytical Approach

Field notes, documents, observations and interview pages were analysed. Many questions were revealed in respect to the mountain of paper and data: How can you make sense out of the data to create a useful theory? Did you get it right? How can you combine all the empirical social realities reflected by the collected data into a theoretical interpretation? Are the data and interpretations of emotions and feelings reliable and valid by the chosen standard? How can you manage the unavoidable biases, prejudices, and stereotypical perceptions? How is it possible to bring all analysis together to create a theoretical model of the area under research (Strauss and Corbin, 1990)? How is it possible to analyse the participants under agent, stewardship, or team production theory?

The data analysis procedure followed Yin (2009) in terms of tools, processes and recommendations for actions to help analyse the collected material in order to create a systematic development of an in-depth understanding and a theoretical contribution to the phenomena under study. Potential variations in how the owner-CEO interrelationship influence the innovation capability were qualitatively analysed and interpreted in different measurement areas: owner and CEO innovation input and their inter-communication and collaboration behaviour, information flow, strategic orientation and leadership to innovation, culture and structure of corporate governance (Adams, Bessant and Phelps, 2006).The systematic approach provides confidence that the study is reliable and valid in respect to the cause-effect reality (Johnson and Duberley, 2010). At the completion of the data collection, each experience description was thoroughly and systematically examined and, with the support of assisted/aided qualitative data analysis software (NVivo[12]), evaluated in German. In general, the researcher let the data speak. Data were analysed through three phases of coding: open, axial, and selective – as advanced by Strauss and Corbin (1998). In this method, a theoretical model: a "relational model of the owner-CEO dyad" (Figure 2) was developed.

During open coding, each transcript was analysed in sentences or groups of sentences reflecting single ideas. These units were given a code to reflect that idea or concept (Strauss and Corbin, 1998). In axial coding, 52 codes in German were worked out and selected. In selective coding,

[12] NVivo is a qualitative data analysis (QDA) computer software package produced by QSR International

the concepts were ultimately organised into one central category or “What the research is all about” (Strauss and Corbin, 1998, p. 146). Selective coding ended in a concentration of 13 groups of codes (first in German then translated into English). These groups of codes were finally separated into three categories: social interrelationship influences with five sub-influences, psychological interrelationship influences with four sub-influences, and situational interrelationship influences with four sub-influences. Properties, as attributes of the categories, were identified for each of the categories (Strauss and Corbin, 1998). By constant comparative analysis, each participant´s response compared and connected to others as categories, properties, and dimensions emerged (Strauss and Corbin, 1998). Finally, out of the 13 selective codes, six social interrelationship influences emerged: action, communication, autonomy, power, responsibility, and support (Table 9), which have significant impact potential on the innovation capability of the studied German MSEs. The 13 selective codes were translated into English and discussed over a long time with the supervisors to find a translation from German to English that was very close in meaning.

3.7 Ethical Considerations

This research agrees to conduct empirical research involving human participants in line with the university ethical research guidelines[13] (Ethics Checklist EC1897). The researcher ensures that participation in this research activity is based on an informed consent. The researcher is honest in all relationships with research participants and is transparent as to the context and purpose of data collection. It is guaranteed that the researcher will be respectful of the confidentiality of the collected information. Equally, the researcher respects the rights and well-being of all individuals and organisations affected by this research. It was and will be ensured that respondents are not harmed or adversely affected by their

[13] http://www.bradford.ac.uk/rkts/documentsandforms/resources-category/ethics-resources/

research activities. The researcher respects the needs of participating individuals and organisations and the requirements of the University of Bradford in meeting the academic requirements. The results of the research, design, and its operationalisation have been discussed with the supervisors prior to conducting the research, to ensure that the above principles have been adequately considered (Howorth, 2014). Ethics approval has been granted by the Chair of the Humanities, Social and Health Sciences Research Ethics Panel at the University of Bradford on 5th June 2015.

3.8 Conclusion

This chapter has set out in clear stages the influence behind the research design and the methodological research strategy. It has explored the nature of reality and knowledge as well as the context of the research and the research question (Silverman, 2005). It started by discussing the philosophical and methodological perspective, the ontological standpoint and the research epistemology. Section Two presented the researcher's social situation and the research approach. Finally, the chapter set out the method of data collection, included the kind and nature of the idea, the analytical approach and the itemisation of the audience of the research. All this provided the methodological foundations to answer the research question: "*How does the owner-CEO interrelationship potentially influence the innovation capability of medium-sized technology enterprises?"*

The following chapters start with the description of the three different cases and the ownership structure of each, segmented in different ideological orientation. Originals and rationales are discussed, followed by an individual description of the acting persons, owner and CEO and their interrelationship structure, and finally by their plans for the future - to identify interrelationship influence potential in respect to the innovation capability of the enterprise.

Chapter 4

4 Description of Cases

This chapter has been divided into three main areas, providing an overview of each of the three cases. Table 3 identifies the ownership ideology of each case and presents further information about the CEO and owner's perspective. These themes will be explored further by using a narrative for each enterprise. In-depth case descriptions are separated into four sections.

Table 3: Owner´s and CEO´s characteristics

Owner's enterprise ideology	**Case A Entrepreneurial oriented ownership structure**	**Case B Managerial oriented ownership structure**	**Case C Paternalistic oriented ownership structure**
Ownership Structure	Strategic Investor	Finance Investor	Family Investor
Predominant CEO Model of Man	Steward/Agent/Team	Agent	Agent
Predominant Owner Model of Man	Steward/Team	Agent	Agent
CEO's Ideology	Entrepreneurial / Managerial	Managerial	Managerial
Owner's Ideology	Entrepreneurial	Managerial/ Capitalistic	Paternalistic

Section **One** of each case provides the origins and rationale of the enterprise, explaining the history and the chronology of the events. This is followed by Section **Two**, where the key actors[14] of the interrelationship

[14]Advisors and 2nd tier managers are not key players and act mainly behind the scenes; they advised the owner and the CEO of the enterprise and were able to give clear references to the owner-CEO interrelationship. According to that, these actors are not the main actors and so this is not described in detail. However, the data they provided is very insightful regarding the owner-CEO interrelationship.

are evaluated, in terms of the role, make-up, and function of the actors. Section **Three** moves on to explain the owner-CEO interrelationship in each enterprise in order to provide a basis for more detailed analysis in later chapters. Section **Four**, finally, offers a view into the plans for the future of each enterprise in order to understand their approach to innovation.

4.1 Case A: Entrepreneurial Oriented Ownership Structure

Case A was selected because prior observation and my initial interview indicated that the dominant ideology appeared to be that of an entrepreneurial oriented enterprise. The owner, the CEO and an advisor were interviewed and internal strategic documents and the web-page were analysed.

4.1.1 Origins and Rationale

The entrepreneurial oriented enterprise is a trailblazer in European nanotechnology and was founded as a spin-off from a university institute. It has established itself as a leading international integrated systems provider for high-performance surfaces since it began operating in 1999. Right from the start, the enterprise pursued the goal of turning scientific visions and the benefits of new materials into commercially successful products and positioning itself as a strategic innovation company. The entrepreneurial oriented enterprise moved through its start-up and foundation phase through all conceivable periods: from the dream to change the world through to great disasters and close to insolvency before it was able to position itself as a leading, international integrated system house for high-performance surfaces and as an established innovation partner in the automotive, transport, machinery and plant engineering, building and interior, sport and leisure industries.

One of the current owners is still the main driver and decision maker in the enterprise. His strategic and visionary intention has changed many times, and according to their own statement, the enterprise moves now to “Phase5” together with him. “The current vision is to develop the enterprise as a leading international integrated system provider for high-performance surfaces that is able to enhance materials and surfaces with new properties and make the benefits of nanotechnology accessible for companies and consumers” (owner’s statement) and follows the short slogan: “Touch us every day”. The main written (internet presence, strategic documents, marketing brochure) and verbal articulated meanings by the owner, CEO and 2nd tier staff in the enterprise are the words “innovation” and “growth”. They carry out quite coherently the intention of the enterprise and also of the owner and CEO of the enterprise in order to transform this vision to other partners, customers, employee investors and shareholders.

An R&D department is integrated with a budget of more than fifteen percent of the turnover, which surpasses the average of German MSEs (PwC, 2016). New technologies, ideas, and innovation were promoted out of this budget and purposefully applied. The R&D department is instructed to generate new applications for existing customers and new potential partners in the market to fulfil the strategic target.

The enterprise is flatly organised with self-organised internal groups, including customer ties. Trust is the major relationship basis in the enterprise and the company also, amongst other things, favours the use of detailed qualitative information as the basis for new venture creation. The successive emergence of new lines of business conforms to the vision of the enterprise. The time frame of the acting players is long-term and is guided by the spontaneous action of the CEO. Core competence is wrapped in willpower and intuition generation, and enforces market and technology development, guided by a huge portion of market and technology knowledge. The main success criterion for the owner is to internally generate enough cash to finance the expansion of the enterprise. The main challenge is to finance all these innovations. “We are not primarily profit oriented” pointed out the owner. With that argument, and characteristics of the business, the enacted ideology in this case is near instant entrepreneurialism (Johannisson and Huse, 2000), and this, hence, depicts the ownership ideology.

The owner and the CEO of the entrepreneurial case study are convinced that there is only one successful and sustainable way for a profitable growth of the enterprise to move into strong customer loyalty - by innovation partnership (owner´s statement). With a common view to make the enterprise successful there has evolved a strong business friendship between the owner and the CEO.

4.1.1.1 Entrepreneurial Owner´s Characteristics

The entrepreneurial owner was one of the founding members of the enterprise in 1999, is 50 years old at the time of study, male and since 2005 in the current position; he currently holds around five percent of the enterprise shares (95% are in diversified holdings). He is an educated computer scientist and became a master of business administration. After his university education, he started his career in a big international company in the consulting business and soon became the head of the strategic department. After a few years in this position he realised that he had no chance of effecting change in a big enterprise so he sought to follow his impatient and alterable individual compulsion and decided to change to a small start-up company, where postgraduates tried to establish a new idea of surface technology that was copied from nature (the lotus flower effect). In his clear and target-oriented character he structured the start-up in such a way that an entrepreneurial enterprise with tradable attributes could emerge. Fellow campaigners from this time told me about the enthusiasm and passion of the current owner, which, it seems, has not changed in general since this time.

In the interviews, the owner was perceived to be a confident strategic investor and driver with a sociable character towards employees and partners, open to new experiences and endowed with a structured conscientiousness and cooperativeness in contact with other people. The entrepreneurial owner has much enthusiasm, concern, and exhibits empathy in his daily environment to his employees and partners, which could have significant positive effects on individuals' creativity (Mumford, Scott, Gaddis and Strange, 2002) and hence to the organisational innovation capability. The owner appeared to stand behind the CEO and his employees and support them if necessary. He stood still in his position as a founder of a start-up but developed his own personal ability further, to be an enterprise driver with professional skills, enough to lead a current big MSE into the next step of a technology corporation without losing contact with his followers or with his ideas and visions. The owner appears to be a team player and acts predominantly as an entrepreneur who is aware about the importance of running interrelationships. Analysis suggested that the owner is willing to take risks, is proactive and is the main innovation driver in the company (Covin and Lumpkin, 2011). Trust is the advance base to control resources and to generate the growth of successive emergence of new lines of business, which is mandatorily flanked with a professional portion of educated managerial skills, routine and professionalism (Johannisson and Huse, 2000; Johannisson 2000; 2002).

The owner's model of man follows self-actualising interests and seems to be guided by collective serving (Davis, Donald and Schoorman, 1997). The enterprise, with its organisation, culture and people, is a source of success for the owner. On the basis of the intrinsic growth achievement and the self-actualising interests, the motivation of the owner seems to be on higher order needs associated with a high value commitment to the enterprise interest. On that basis, the involvement orientation of the owner-as-management philosophy is accepted and requested by the CEO. A similar objective for the owner and the enterprise is performance enhancement and profitable growth. The leadership style as a part of the cultural alignment is more collective, transformational (Bono and Judge, 2004) and based at a low power distance in the direction of the CEO and also to the management level and, with the increasing size of the enterprise, steadily less to the employees (Davis, Schoorman and Donaldson, 1997). This analysis indicated that the owner is acting predominantly according to stewardship theory and hence as a steward (Davis, Schoorman and Donaldson, 1997).

4.1.1.2 CEO Characteristics

The CEO, a 50-year-old (at the time of study) male engineer who received his degree as a process technician at a German university and worked till he switched from a big technological enterprise two years after the start-up period in 2001 to the examined enterprise and became CEO at the same time. He started his career with the development and product introduction of complex polymer systems and was later in control of the overall activities in plant engineering for an MSE, where he was an authorised signatory and member of the management board. At the time of study, the CEO holds less than one percent of the shares of the enterprise.

In the interviews, the CEO came across as a confident and calm person who has the same ideals as the owner. The CEO´s mind-set, and also the conviction, together with the owner, were astonishingly similar in strategic topics. The CEO appeared to be less extrovert than the owner. He appears more reserved without losing his clear leadership aspirations but steps back into the second tier in the direct contact or presence of the owner, but alone he took his responsibility proactively. The analysis indicated that he acts quite effectively and in a direct and organised way by his individual structure. In the contact with employees he appears factual, predictable, listens seriously to the arguments and decides in a common and comprehensible sense, and appears friendly and empathetic. The CEO appeared to act comprehensively in the interests of the enterprise in a close connection and synergy with his owner. The direct owner-CEO interrelationship is revealed as complementary, symbiotic and mutually beneficial, and each one of the two players knows what he has with his counterpart. The CEO leads his employees with power, trust, respect, loyalty, and admiration, which is accompanied by a transformational leadership style (Bono and Judge, 2004).

In interviews the CEO indicates that he is power and responsibility oriented in the daily business and is aligned with enhancing the performance of the enterprise and focuses on a collective way of thinking and acting to achieve business growth. The motivation of the CEO seems to be intrinsically flanked by higher order needs, combined with technological and factual responsibility and power. His social comparison seems to be quite compatible with his owner. The preceding analysis presents the CEO as a team player with psychological and situational factors that predispose the individual with an approach aligned to a stewardship relationship (Davis, Schoorman and Donaldson, 1997). In comparison to the owner, the CEO appears to be more management orientated and market oriented with potential and possible influence, is quite structured and systematic in his activities (Johannisson and Huse, 2000, Johannisson, 2000).

4.1.2 Owner-CEO Interrelationship

The entrepreneurial dominated enterprise owner describes the fundamental interrelationship with his CEO as more and more open (owner´s view). This was not always like this, apparently. The owner mentioned that his interrelationship experiences with other people started non-committally and grew more and more over time. “For a dependent employed person, it could be critical to argue to open your interests and intentions at a too early stage, because no one likes to place his own career in jeopardy” (owner). For this reason, the owner claims that he has become increasingly “softer and down to earth” in dealing with his CEO in order to reduce the inhibition level and take on more of his opinion. He is interested to meet face to face in a horizontal hierarchy and is aware that an innovation-driven company can only grow together. He mentioned that everything is in dynamic flow and growth in the enterprise, and this, incidentally, signifies the importance of communication and the willingness to change. What is right today could be wrong tomorrow, and this operational situation has also to be reflected in the interrelationship between the individuals. “It is important to set your employees an example of cooperation and demonstrate how to create a culture of trust” (owner). Trust, respect, care and communication play a crucial role between owner and CEO. “Do one step more than necessary and do it with more honest and respectful effort than expected and reveal your responsible leadership” (owner). The CEO and the owner discuss intensively how it is possible to cede power. “I like to cede power, I disempower myself” (owner and CEO, equally worded). The interviews with both actors indicate that they are aware of the importance to share power and responsibility and delegate it to the bottom of the enterprise (Avolio and Bass, 2004), and both are willing to transform this idea into the daily operation.

Even though the owner and the CEO stand in specific competition, the exercise of power is successful and focused on the opportunity of action. On the human side, the two actors are working confidently in the same direction, whilst at the factual level, competition is existing and leads to an atmosphere of constructive debate, guided by a corresponding information exchange. This appears in the way that the owner is able to lead the wishes and volition of his CEO. The owner transmits his desires to the CEO, who has to shape the enterprise in the owner´s interest. The owner defines the frames and the rules of acting, whilst the CEO is the seeming co-creator and implementer (Bernardy, 2014). Thereby the owner leads the enterprise to a collective thinking and displaces individual interests (Davis, Schoorman and Donaldson, 1997). The owner raises the entrepreneurial influence of the CEO, elevating him in comparison to his own position and imparting the CEO in this way with a greater scope of action. The power of the owner to his CEO is impressionable by the intensification of the interrelationship (Bernardy, 2014).

It remains unclear if the owner acts in this way consciously or not. The fact is that the CEO feels confident in the hands of the owner. Both actors experience the feeling of “I decide what we do here”, and this is achieved despite a parallel reduction of their own autonomy. It seems that both actors have found a common volition and have merged their particular volition to one common cause. Everybody takes a part of the responsibility to handle it well and both actors realise within their interrelationship that this is only possible if everybody takes one step back if it is required and tempers their own individual obligation of acting and finds explicit expression in the small and not standardised offices of the owner and the CEO.

The analysis indicates that over the years of cooperation, they have become friends and know a lot about each other, even away from the daily business together. Operational tasks and private interests intermingle and are of common interest (Gallese, 2013). Beyond this action affinity I also perceived a coming together of foundational values in respect to the owner-CEO interrelationship. Ideology and social understanding in respect to the business and its environment are almost perfectly aligned and respectively complementary. The two actors have the feeling and desire to cooperate in one and the same direction, which leads so far to the position where both actors feel that they are at one with each other and able to “change the world a little bit” (owner).

4.1.3 Plans for the Future

The owner and the CEO aim to push the existing entrepreneurial enterprise further - to becoming a leading international integrated system provider for high-performance surfaces and are intent on working to enhance materials and surfaces with new properties. The owner is willing to reach this goal: “even if I (he) have to turn everything topsy-turvy”, which is called “Phase 5” within the enterprise and is the fifth middle-term strategy since 2001 in the enterprise. The ownership is searching, together with the CEO, for new strategic investments, and wants to take over some established enterprises that fit into the strategic frame of the enterprise. The focus lies in the intention of new lines of business, new markets and the extension of the existing market position. “We go where our customer is and help them to innovate new products and technologies” (owner). There was a significant R&D budget of approximately 15% in 2014, and this was expected to be stabilised for the next few years in order to secure the technology status by continuous sustainable innovation.

The next middle-term target of the enterprise is notified by a turnover of €100 million (2014, €68,5 m), which should be reached by an extension of organic growth, increasing internationalisation, expansion of the technology portfolio, mergers and acquisitions and an internal excellence program (internal strategic document).

4.1.4 Summary of Case A

The interviews indicate that the owner-CEO interrelationship is based on a partnership guided by mutual trust, respect, and a togetherness through shared interest and collective serving (Davis, Schoorman and Donaldson, 1997) and an entrepreneurial heterogeneous team approach (Discua Cruz, Howorth and Hamilton, 2013). Analysis indicates that this could be positively related to the innovation capability of the enterprise (Johannisson, and Huse, 2000; Monge, Cozzens and Contractor, 1992; Amabile, 1996; Cotgrove and Box, 1970; Davis, Schoorman, and Donaldson, 1997). Individuals stand in the foreground. The analysis indicates too that the owner and the CEO like people, and are protective towards each other, which assisted the innovation theory of Van de Ven (1986). Furthermore, it supports the interest to share power (Avolio and Bass, 2004), and the innovation activity in the enterprise. The interviews indicated that the owner is the pacemaker in respect to innovation activities in the enterprise and the CEO is the implementer (Bessant, 2014). A crucial factor is the willingness to change and communicate: to change themselves and change processes and finally the entire enterprise. This interrelationship behaviour appears to have an important influence on the innovation capability and will be further evaluated in the next chapter.

4.2 Case B: Managerial Oriented Ownership Structure

Case B was selected because prior observation and my initial interview indicated that the dominant ideology appeared to be that of a managerial oriented enterprise. The owner, the CEO, an advisor and a 2nd tier manager were interviewed and internal strategic documents and the web-page were analysed.

4.2.1 Origins and Rationale

The managerial oriented enterprise is a leading player in the area of gas tank and radiator closure technology and was founded in 1920.It was family-owned and was later sold, in the year 2006, to a private financial investor group. The enterprise described itself as an innovative solution-oriented entity and in selected areas as a global market leader.

The operational know-how is focused in the area of plastic injection moulding and the assembling of system components. In the year 2015 the enterprise bought two other small European enterprises in order to generate a more comprehensive product portfolio in the automotive gas tank area, and is endeavouring to establish the enterprise in a long-term view as an innovative system solution player. The enterprise also supplemented its firm´s name with the ancillary: “Innovative Closure Technology”, demonstrating an intent to signal an innovative technology enterprise.

The analysis indicates that the enterprise is today more sales-driven, whilst it was more directed in the past by the influence of the former family owner. Since the takeover, a more active global acquisition of the sales markets is recognisable, as well as an expansion of local assembly entities in the main important automotive production countries around the globe. An R&D department is integrated into the design department and generates new products associated with the daily business. A numerical financial budget is not defined for the R&D department and is generated by defined projects initiated by the CEO.

The study indicates that activities in the enterprise are structured by the formalisation of the role of the owner and evident installed planning routines. The business context is defined in the strategy to a focus on market segments with potential, and success is measured as an increase of market shares. The time horizon is short term and less structured (CEO statement) to present activities in order to build a platform for future offensives (Johannisson and Huse, 2000). The success criteria are obviously economic result driven and the ROI is emphasised. The volume of significant dividends is the main success criterion in the enterprise for the owners. The CEO and the second management level realised that the owner is waiting for the right profitable offer for the enterprise in order to sell it to the next investor (CEO’s statement). Due to these findings of the analysis, the enterprise is identified as having a dominant managerialism ownership ideology (Johannisson and Huse, 2000). Strategic investor interest is marginal. There is no significant cooperation or turning to advantage of synergies with other group entities (CEO’s statement).

Both the owner and the CEO pursue an increase in the profit and expansion of the market position in the automobile and commercial vehicle tank closure systems. Growth is the main target. The owner-CEO interrelationship is reduced to monthly meetings and votes by phone. A personal relationship with the acting persons could not be realised. The interrelationship is exclusively business-related (CEO) for a specific purpose.

4.2.1.1 Managerial Owner´s Characteristics

The managerial ownership structure includes two main investors, who hold around one third of the holding structure shares each, and two investors with minority shares. The two minority investors were investors when the business was founded and are more actively involved in the business, whereas the major shareholders are mostly silent investors. Of the two involved owners, one is the leading investor and most active, therefore this was the person interviewed and identified as the managerial oriented owner. The other minority investor is recognised as his deputy.

The owner is a 62-year-old (at the time of study) Austrian business man with a focus on marketing and sales, with significant experience in brand management in the sectors of consumer goods and assembly goods for the building sector. For more than ten years he has been working for the financial investor group and enjoys absolute trust from the main shareholders. Currently, the owner’s interest is to replace himself within the next three years by his deputy (owner’s statement). He was defined by his CEO and second tier management as a calm, self-confident and reserved person. The risk orientation bias has shrunk over the years and currently, openness to new experiences is considered and careful.

Occasional mistrust reveals that whilst he is in other opportunities cooperative and friendly to the CEO, he is quite distanced from the second management level. Most activities are driven by controlling and cost-cutting support. More precise budget adherence is the main focus. Critical questions occur directly when the monthly report reveals deviation from the budget.

The owner appeared to be predominantly extrinsically motivated by lower economic needs: "Only profit counts!" (CEO's statement). An element of risk adversity is prevalent, whilst the increasing value of the investment is superficial, as the target is to gain enough profit to pay out dividends as much as possible and to reach the ROI as soon as possible. Financial targets are in the foreground and extremely short-term related (CEO). Identification with the enterprise, the industry and the technology is marginal (CEO). It seems that the owner has less interest in understanding the products and the markets. The owner's power is only taken by his institutional legitimation and is coercive. The analysis indicated that the owner compares his social status with other owners in the financial investor group and outside who have comparable functions. His management philosophy seems control-oriented, including his risk orientation, which is also risk-assessing, with the background of not endangering the budget target and hence the expected profit. The time frame and the acting horizon is predominantly short term and the objective is dominated by cost control, cost reduction and profit enhancement (CEO). The study indicates that the leadership culture is controlled by an imbalance in power and is driven to support the owner's interest to generate profit and dividends. In general, it becomes clear that the owner's behaviour follows individual economic interests and is self-serving, even if verbally, collective targets were avowed (Davis, Schoorman, and Donaldson, 1997). Hence, it appeared that the owner in the managerialism enterprise acts mainly in accordance with principal agent theory.

4.2.1.2 CEO´s Characteristics

The CEO of Case B is 46 years old at the time of study, male, has a German MBA, and has been working since 2010 in the current position. He worked before in other different holding companies as controller and consultant before he acquired his first position as CEO. His priority focus is the market and finance. Predominantly, product innovation and improvements are driven by the market, and so far, mainly by the CEO, even though he is no technician (CEO). The CEO is quite interested to explore the world in the area of the selected industry and tries to push the market and sales in new regions, and is following the big automobile manufacturers.

Analysis indicated that the CEO is acting in his position confidently and tranquilly. There is no doubt that the CEO is the leader of the enterprise and the majority of decisions emerge only under the contribution of the CEO (second tier manager). Apart from that, the CEO is quite reserved and complains that employees are not independent and autonomous in their decision making. I perceived that he was on edge with this situation and likes to have employees who are able to work independently in his own sense. He vents that he is an inquisitive person but on the other hand he is also careful and scrutinising, and hence restricted in his openness to new experiences. In his daily business he appears quite effective and organised. When it comes to how he is acting in the direction of the organisational effectiveness, he is not that well-structured. Cooperative and friendly on one hand, but also distrustful and condescending on the other hand, means that it is quite difficult for an employee to evaluate the CEO (Sand, 2012).

The motivation of the CEO appears as a mixture between intrinsic and extrinsic motivation. On one hand he likes to make a difference and on the other hand he is interested to earn good and fast money. “I have also proposals from other enterprises. In the case that the payment is lucrative I will not exclude to terminate my job here” pointed out the CEO. In the interview he indicates that his interest in the history of the enterprise as an entity is marginal. The true picture seems quite incoherent. He is more interested in growth and as a salesman he evaluates his success through growth and result figures. Obviously, he is less interested in individuals and in interrelationships and has only limited team player skills. The analysis indicated that his social comparison is more with other managers than with his owner. He did not keep secret that he has a personal problem with his owner and is not satisfied in this relationship. “The owner is tired and not really interested in the future of the enterprise. This is in my eyes not enough; it is not sufficient” (CEO). He is full of hope that the existing owner will be replaced by his successor. The CEO takes his power and responsibility directly from his legitimate position. Deep interest in the enterprise and the acting person at second tier level are marginal, which he expresses directly and consciously.

The CEO’s risk orientation is limited but existing, especially for new markets and customers with clear risk estimation. His management philosophy appears similar to that of the owner, control oriented by numbers and figures, certainly with a middle-term timeframe. With this controlling mode he is able to be aloof with employees. The CEO articulates precisely that he does not like to have a too close connection and nearness to employees. “Let us have a distance in this relationship,” he is quoted as saying. He is more the economic and self-serving man in his behaviour and due to these factors, the CEO’s position could be theoretically defined as an agent (Davis, Schoorman, and Donaldson, 1997), as indicated in the analysis.

4.2.2 Owner-CEO Interrelationship

The owner-CEO interrelationship appeared on the surface professional and inwardly taut. The owner is focused on controlling the CEO and controlling seems to be the basis of the interrelationship. The

CEO noted: “I have not to report each quarter. Currently it is each month and, for example, I have to present and to discuss my own travel costs each month”. The interrelationship appeared rational, less emotional and is formally limited by the two months’ meetings and by a monthly telephone call in respect to the monthly result and eventual deviations from the budget. A significant interest by the owner is denied by the CEO and also by the second-tier management. Innovations that force the competitiveness are welcome but are not driven by the owner. “The owner’s interest is limited to commercial output, not into our interrelationship” pointed out the CEO.

The CEO argued that he is more or less autonomous in deciding within the limits of the budget, but on the other hand he knows that he has to deliver the owner’s standards, otherwise the owner will put a question mark over him. “You feel permanently the power in your back that you have to deliver the numbers,” said the CEO. A communication of the basis of the daily business is undesired and also only of limited usefulness. The owner has not got the product and market competence to give operational support. “My owner is less anticipatory, more controlling. We do not change responsibilities. He uses management by scrutiny. I mean there is no innovation, no progress, no new market ideas, etc., coming from my owner” (CEO). Consequently, the quarterly meetings were dominated by number crunching and by small talk, which is guided by the years of cooperation. Communication within is more one-way. “We also speak about emotions” pointed out the CEO, referring to a relationship that is based on long-term cooperation in different positions with the holding company. “Whilst we had huge problems with the cancer disease of my son, the sympathy of my owner was astonishing. I got enough space to stay at home and support my family in this difficult time” (CEO). Despite this occasion, the owner-CEO interrelationship seems largely superficial, though, and mainly economically related. Social competence is less pronounced. “I have not the interests to explain everything to my management. It is too exhausting and makes me nervous. The people are not able to follow me at my own speed” (CEO). The CEO is running far ahead, is not able to listen and no one is able to follow him. The CEO´s willingness to invest into an interrelationship seems to be less. The CEO argues that the owner is less empathic and doesn't know exactly what he is doing. The same seems true for the CEO. Both actors gave the impression that they are more a solitary rather than a team player.

This objective stage also underpins the extrinsic motivation of the owner and the CEO (Davis, Schoorman, and Donaldson, 1997). The owner-CEO interrelationship seems to be mandatorily self-serving, control and power oriented and profit focused. Support for the CEO and also for the enterprise is tertiary and uttered only in extreme situations. Actions are less collective, which is likely the basis for an ineffective interrelationship (Demsetz and Lehn, 1985). It seemed in the interviews that a direct collective serving and the volition to support does not exist in the words of the CEO. "I like…., I have to do…., I am responsible for….," rarely did I observe the word we will, or we have to do in the enterprise this, that and the other. It appeared that the actors live in their own environment, which could conceal counterproductive potential for the innovation capability.

Even if the CEO is arguing that targets were collectively worked out, the second-tier management perceive this in a totally different way. "Leadership and communication are not taking place" argues the CEO in the direction of the owner, and this also justifies the owner-CEO interrelationship. No one knows where the company wants to be in five years. This uncertainty has likely significant potential of influence from the owner-CEO interrelationship to the innovation capability.

Unconsidered in the owner-CEO interrelationship are the positions of the two main investors in the background. These two persons stay hidden in the background; they are not involved in the daily business and pull the strings in a way that is difficult to analyse. No significant decisions were implemented without the approval of a minimum of one of the two main owners. All this is more or less hidden in the background. One of the minority owners said that the owner is only a “marionette” of the “big” owners.

The analysis indicated that the interrelationship is mandatorily rational-oriented and based on objective behaviour and individual opportunism, because everyone is interested in indicating their own interests. The owner´s interest is focused on improving his own wealth and his ownership structure wealth. Hence, the CEO has only a chance to survive if he is focused on his agent role. The interrelationship is more economically driven and less proactive and socially driven, but it is influenced passively and shapes the situation more as required. The future plans of the enterprise will be guided by this impersonal and superficial interrelationship, which likely has a significant potential to affect the innovation capability.

4.2.3 Plans for the Future

The CEO and the owner in the managerial oriented enterprise both stated that in the next few years they want to push the expansion of the market position by working closely together with other relevant system partners, and they want to prepare the next step - to change from a product supplier to a system supplier. In this further context, foreign enterprises should be taken over to provide a greater participation in the system supplier market. Into this initiative the expansion in the Chinese, Indian and Mexican markets is promoted and further new customers in this market should be captured. A continuous collaboration with key OEM (original equipment manufacturer) customers like Volkswagen (VW) is intended by a simultaneous extension of market shares.

Production locations will be reconsidered and restructured under cost and efficiency aspects. One production location will be closed and rebuilt in a low-wage country. Product innovations will be generated by the planned acquisition of the two enterprises to offer complete tank systems. With the takeover of the mentioned enterprises they open the door into the white goods market. Particular innovation steps into new markets or substitute products are not explicit in the strategic scope. The budget for the R&D department remains untouched (CEO's statement).

The next growth step, with a planned €50 million turnover, is by support of new markets and an extension of existing customer revenues, guided by the interest to leverage the profit over the two-digit target of ten percent. The ownership is interested in merging the business into a bigger unit in order to increase the value of the enterprise. In the possible case that another investor is interested in the business and shows intentions to take over the enterprise, the owner will evaluate the conditions and through the assumption of a good deal, the owner will sell the business. The interviews indicated that the owner-CEO interrelationship serves the owner's rational interests to improve their private wealth and shape the social situation.

4.2.4 Summary of Case B

The interrelationship in the managerial enterprise as revealed from the data is characterised by distance and dominated by profit and control-oriented actions. The managerial owner and his CEO act as lone fighters, guided by self-serving behaviour. The outcome of the enterprise is performance and delivery oriented and appears limited in its ability to enhance the innovation capability. Waiting for the other to initiate activities characterises the interrelationship (Demsetz and Lehn, 1985) and symbolises missing leadership (Avolio and Bass, 2004). Finally, the owner and the CEO are only a puppet cabinet of the actual investor in the background, who has interest only in dividends and enterprise value enhancement, which is counter-productive for the owner-CEO interrelationship and appears to negatively influence the innovation capability of the enterprise (Trantow, Hees and Jeschke, 2012).

4.3 Case C: The Paternalistic Oriented Ownership Structure

Case C was selected because prior observation and my initial interview indicated that the dominant ideology appeared to be that of a paternalistic oriented enterprise. The owner, the CEO, and an advisor were interviewed and internal strategic documents and the webpage were analysed.

4.3.1 Origins and Rationale

The family-owned paternalistic oriented enterprise is an important player in the niche market of bowser vehicles in the area of road tanks and refuellers at airports, and was founded by the father of the current owner and grandfather of the current CEO in the year 1955. Since 1972 the enterprise has been operating internationally and has become, step by step, a key player in the international refueller market at airports and locally in road tank vehicles. In 1974 the current owner became the new CEO in the enterprise, leading the enterprise for close to 25 years before he handed over the responsibility to his daughter in 2008, the current CEO.

The enterprise was for a long time reputed as quite innovative and technologically pioneering, especially in the founder's years and the generation after. Since a few years ago, the enterprise has had to manage a significant downturn in the market for the traditional road tanks business, accompanied with a global growing of the airport refueller market. Visible distribution problems, different market structures and globalisation tendencies pose challenges that the enterprise is still fighting (CEO and owner’s statement). Local customers and low-price vendors offer adequate technological substitutes with a better price. The enterprise has, in these recent years, not been able to assert itself in the market by pioneering new, relevant and technological innovations as it did in the past (CEO’s statement).

The enterprise was at the time of the study in a restructuring phase, while the former CEO and current owner had let the enterprise be simply reactively participating in the market and not realising present chances and opportunities. It seemed that market and production challenges and needs were postponed and the proximity to the customer was not realised, based on a weak sales and product management by this time. At the time of analysis, the CEO was trying to close the gap in the mentioned area and had made significant progress but, by her own admission, this progress had been slow. With around 160 employees and a €36 million turnover, plus an export quota of around 60%, the enterprise in the last year had been roughly stable and producing approximately 300 vehicles a year. The analysis indicated that the examined enterprise was currently more cost-cut driven, with visible progress in the process organisation of the production. To be an innovative producer of tank vehicles is part of the vision, but it seemed only in theory. An R&D department has been installed as part of the design department but has been mostly occupied by other activities and has been acting more as a problem solver and a stopgap than as a creative cell.

In interviews the CEO indicated that the approach to the market is rather slow and hesitant to new markets, rather than vigorous and progressive. The enterprise is strongly driven by an ownership and individual respect of people rather than by profitability or growth. On this basis, activities are structured by seniority and equality between the family players. This restricts the talent pool. It intends to use the best availability of people within the family. “My father thinks in endless dimensions and does not realise that life is not endless,” argued the CEO. She gave the impression that the owner is not interested in developing the enterprise significantly into the next decade. The major target is to survive and preserve the enterprise’s existence. Significant investments have been stopped. Avoidable recruitments have been postponed or cancelled. The CEO mentioned that she has no chance to hire consultants from outside to bring new ideas or fresh blood by recruitment into the enterprise. Her father and owner denies the need. The articulated success criterion of the owner seems more the ensuring of the family business remaining in the family and the creation of an adequate old-age provision (CEO) for the current owner. Hence, the ownership ideology appeared to be paternalistic oriented.

The advisory board and the CEO are aware that a new COO with a deep technological background is necessary and desirable. Currently it seems that the pressure from the market and the banks is not strong enough to convince the owner to approve the recruitment. “I know what the enterprise is looking for, new jobs, nothing else” (owner).

At the time of interviews, the analysis indicated that the owner and CEO of Case C were not at one with each other in respect to the strategic direction and hence to the operative action base to move the enterprise into the next generation cycle. The CEO appeared to be distancing herself from her parents’ influence rather than to lead, as CEO, the entire entity. The interrelationship appeared incoherent, tense and quasi-intimate and emotionally dependent.

4.3.1.1 Paternalistic Oriented Owner´s Characteristics

The paternalistic oriented owner is male, 74 years old at the time of study, with training in business management and as a business economist. He holds the majority of the enterprise shares, but has transferred some minority shares to the daughter, who is now acting as CEO. Operationally he is still the ongoing boss of finance and the bottleneck for all crucial enterprise decisions. In his jovial mode he is present on a daily basis in the enterprise and does not like to lose contact or control of the enterprise and his daughter. Like a landlord, the owner gave the impression that the guides visitors and partners through the enterprise and likes to talk about ancient times and his classic cars.

The analysis indicates that the owner has a confident and reserved attitude. He is by nature friendly and courteous, has style and an airy manner. To stand in the social hub is what he likes and he tries to reach this by being hesitantly cautious. His lax and carefree attitude is noticeable, and he signals in his environment his mitigating conscientiousness. His trust in employees and in people in general appeared reduced due to experiences in the past (observations and advisor statement). Her team player skills are marginal. The openness to experiences that he had “in the old days” has changed over the years into an attitude of retaining and fixing. It seemed that he became a quite careful personality with age.

It looks like the owner has changed his behaviour over the years from a more collectively serving, entrepreneurially orientated person (CEO) to a self-serving patriarch. His extrinsic motivation stands in the path of the actual progress of the enterprise. The interviews indicated that the growth orientation yields, the security thinking, and pension plan for himself and his wife are his concerns. Still ongoing is his interests in the survival of the enterprise and the transfer into the next generation, but in his acting, he is preferably active and not what the enterprise is looking for: a proactive owner (CEO). His social comparison is reduced to the option-forming of his direct social environment, accompanied by a high-value commitment to the family firm. Past experiences and the fact that he is the majority owner gives credence to his power and responsibility. He is still involvement oriented but not to give support. He likes to stand in the first row and does not want to give up his traditional standing in the enterprise (advisor’s statement). The reason could be that he likes to control decisions and behaves narcissistically, which has potential to influence the interrelationship with his CEO accordingly. His risk orientation has been reduced over time, according to himself, and he likes to deny the necessary truth and resist advice. Necessary decisions are postponed and mandatory actions partly stop. The analysis indicated that a short-term time frame dominates the daily operations and actions are accompanied by strict cost control. His authoritarian and less autonomous culture is today combined with displacement.

The analysis indicated that on the basis of these individual traits and behaviour the owner is acting in a self-interested manner in line with agency theory (Davis, Schoorman, and Donaldson, 1997). It revealed that the owner and father do not accept strong partners at the daughter’s side who might reduce his power, and hence he fits the attributes of a patriarch (Johannisson and Huse, 2000). His approach has changed over the years from an entrepreneurial emphasis to the current paternalistic attitude and conduct.

4.3.1.2 CEO Characteristics

The 42-year-old (at the time of study) CEO is female, studied business administration and has been in the current position since 2011 and is the daughter of the current owner. Today she holds a minority shareholding and together with her father, 100% of the entire enterprise. After her study she acquired a position with a big German automobile producer, and soon gained responsible positions in the marketing department. Afterwards she acquired a leading international marketing position in Asia. Following the refusal of her brother to step into the footprints of her father she also rejected the initial interest to work in the family firm, but after multiple solicitations from the father she caved in and moved from Bangkok back to Germany, on the landside of north Hessen, to start her career in her father’s firm as CEO. It seemed that in the first few years the entrepreneurship was collaborative together with her father.

The responsibility was focused on marketing and sales and production and technology. Beyond her activities in the firm she also started several social activities around family businesses and female successors in family-owned enterprises in different organisations.

The analysis indicated that the CEO is neither self-serving nor self-actualising. She was urged by her father's desire and her family affinity, is more extrinsically motivated with initial higher order needs and is currently under huge emotional pressure. Her social comparison (Amabile et al., 1996) is dominated by other female managers in her local business women's club environment (CEO). Her standing in the enterprise after a few years is increasingly difficult, partly founded in her weak technological competence (advisor). Hence, her power and responsibility is predominantly reduced to her institutional legitimation. The backing in the enterprise has been reduced over the years (advisor). The targets are long-term in their timeframe, accompanied by cost-cutting and controlling mechanisms. "I have to stay till my pension in the enterprise" (CEO). Potentially, the CEO has difficulty in making direct contact with employees and hence a high-power distance has emerged (Davis, Schoorman and Donaldson, 1997). The CEO is not meeting her employees every day, which is grounded in the weak technological competence but also in the personality of the CEO. She is concealing herself in the retreat area of her office (advisor). The interviews indicated that the CEO is not socially accepted in the enterprise. On the basis of these attributes the CEO appeared to be acting in line with agency theory as an agent to her owner.

It seemed that the CEO is partly isolated in the enterprise because of the dominant position and dominant conduct of the owner and the weak assertiveness of herself, and is hence easily vulnerable. Her capacity for enthusiasm is limited and her openness to new experiences extremely careful. "She has not the courage to decide alone" pointed out the advisor. Hence the CEO is in a position of negligence. She is in a competitive fight with the father, which dominates their interrelationship. Considering that the father gave her the whole responsibility for the operation, it is difficult for the CEO to develop her own active personality in the enterprise.

4.3.2 Owner-CEO Interrelationship

The interviews indicated that the owner-CEO interrelationship is at a more mature level than the father-daughter interrelationship. The father retains the original role as “bread-earner in the family” (advisor). The owner acts as the patriarch and believes that he is managing everything in the right manner and in the best possible way. That the CEO is assessing this differently is denied by the owner. The CEO and the advisor, both in the same way, justify the current role of the owner as a blocker. The owner has not realised that he is not sitting in the “pilot’s chair” anymore (advisor). He likes to maintain the old-time attitude and is quite dominant in the way in which he is cooperating with his CEO, and he believes that he gives support for the CEO. His dominance in the interrelationship with the CEO goes so far that he thinks he knows it all, as in the past. That he has implemented his daughter as CEO, who has to work the next 30 years, and that she likes to change the world within the enterprise he ignores (advisor). It would seem that the owner leads the enterprise by “rear-view mirrors” (advisor) and generates a lot of conflicts with his CEO, who has future perspectives.

The analysis indicated that the owner-CEO interrelationship is based on a contradiction. The CEO does not appear to demonstrate the strength, the courage, nor the power to counteract the decisions and procedures of the owner. The father does not like to lose the control of the daughter. Her resignation and demotivation are noticeable. She sits secluded and isolated in her office. In common meetings, the owner seemingly gives the CEO the advantage but you can feel that she would not decide without the owner. The conduct is respectful in the fact that the CEO is his own “flesh and blood” (advisor), but towards third parties it is dominant and almost authoritarian. This conduct obviously makes the CEO uncertain because of being bounded in the paternalistic enterprise. The CEO and daughter appears safely bounded in the family but not as CEO, which has significant potential to influence the interrelationship (Bowlby, 1958). She does not exclude the possibility that the owner would fire her (advisor).

Evasion and displacement are the prevalent feelings in this owner-CEO interrelationship. The owner was protected by the CEO or the father was protected by the daughter, but on the other hand, and in very private moments, the whole burden of the situation breaks out. This was moving in so far as that the CEO began to cry when she told private details of the owner's conduct. "I am not able to solve conflicts with my father and I am now so far that I need support from outside and I am searching for psychological support" pointed out the CEO.

Unconsidered in the owner-CEO interrelationship is the position of the mother of the CEO, the owner's wife. She acts in the background and it was not possible for me to get in touch with her, but intimations of the CEO and the advisor indicate a not negligible influence. The daughter told that in a private atmosphere in business-related discussions, the mother mostly supports the position of the owner. It would seem that the daughter stands alone against her parents, which is symbolic of the owner-CEO interrelationship.

4.3.3 Plans for the Future

The loss of market share in the main segment should be compensated by intensified sales activity in the second smaller sector, which is more international and placed in global airport facilities. An investment in this technology is planned and is part of the strategy, but is currently not structured and implemented. The acting persons realise more and more in different quantities that it is necessary to spend money in an uncertain future market and segment to fix the annual turnover. In the case of non-success, a huge restructuring process is likely mandatory.

The current sales force should be partly changed and partly more qualified. Sales, engineering and manufacturing department restructuring is planned. Basic tools like sales records have to be created and renewed respectively. “The enterprise needs to be more dynamic, like in the past” (CEO). In order to reach this, the CEO is interested in hiring a COO who can take over the whole technological responsibility, which is not supported by the owner currently. In respect to the international challenge in the global airport market, a local sales force should be installed and cooperation with local companies initiated. Process optimisation is necessary and initiated and under the control of the CEO.

The acting person will step back in the enterprise from its further technological and growth strategy and will move into a more international market and use the “made in Germany” brand as a door opener at international airports (CEO). The CEO is willing to push the company and the employees into a more risk-orientated, visionary and enthusiastic age. Well-known customer relations should be enlarged and new relations will be established. The actual turnover should be stabilised under the influence of partly dropping market segments at around 35 million Euros, with concurrent increasing of the profitability. The innovation capability of the company is restricted by the dominant behaviour and of the owner and the weak support for the CEO, the result of which is that the interrelationship suffers because of this. A proactive focus to innovate appeared as marginal.

4.3.4 Summary of Case C

Currently, as revealed from the data, the paternalistic oriented enterprise is driven by restructuring activities, which are practically blocked but verbally supported by the owner. The owner is using communication as a toll of conviction, not to inform. The analysis indicated that the enterprise and also the interrelationship live in contradiction. The owner influences, by his dominant, jovial, and retaining manner, the owner-CEO interrelationship that is seldom face to face and promotes with less potential the innovation capability. It is rational driven but burdened by serious emotional influences for the CEO. Within familiar commitments, control oriented, past oriented, based on mistrust, and an authoritarian and less autonomous leadership style (Avolio and Bass, 2004), the unsafely attached CEO (Bowlby, 1958) acts independently and uncertainly and transmits this behaviour from the owner-CEO interrelationship into the enterprise, which could have significant negative potential on the innovation capability (Van de Ven, 1997; Jeschke, Isenhard, Hees and Trantow, 2011). As a consequence of the owner-CEO interrelationship, the enterprise has struggled for years and has not found any sustainable positive idea to influence the innovation capability of the enterprise continuously.

4.4 Conclusion

The analysis of the three cases reveals obvious differences within the owner-CEO interrelationship and their characteristics. Rational economic expectations are dominant in all three cases, but in different characteristics. Emotional impact seems different. The analysis indicated that the managerial owner-CEO interrelationship tries to keep emotion on a low level. The same is true for the paternalistic case but with the difference that the CEO suffers under the lack of emotions of her CEO. The owner in the entrepreneurial dyad seemed to be aware in his subconsciousness about the importance of a solid emotional interrelationship beyond rational facts.

Whilst the innovation orientation within the interrelationship provides different emphases, the characteristics of the interrelationship also reveal contrasts. A face-to-face interrelationship is only given in the entrepreneurial oriented case, while in the managerial enterprise it is only pseudo existing and in the paternalistic oriented case it is implicitly denied. This perception and practice of the interrelationship has seeming influence on the communication and task sharing between owner and CEO, and hence with the individual responsibility. Either way, the different interrelationship dynamics also influence the autonomy and the power of the two actors. The entrepreneurial oriented owner supports his CEO in seemingly all activities if desired, and their close communication culture did not result in situations where the CEO fails with his activities. In contrast to this, the CEO in the paternalistic oriented enterprise retreated into her private domain with her owner in any case where there was failure or discrepancy.

In the following chapter the examined individuals and their collaboration will reveal the influence of the owner-CEO interrelationship in the findings of thematic analysis and hence the potential to affect the innovation capability under social, psychological and situational influences.

Chapter 5

5 The Social and Psychological Interrelationship Influences

In this chapter, analysis is presented of social and psychological factors that might influence the innovation capability of the enterprise. This analysis builds on the explanation of varying owner-CEO interrelationships presented in Chapter 4. **First**, the social interrelationship influences are examined in relation to corporate structure, owner-CEO cooperation, corporate governance, as well as the conduct and methods of communication. **Second**, psychological factors related to the individual bias and interests of the owner and CEO are analysed in four areas: stimulus, expectations, motive, and owners' support. **Third**, the conclusion compares the results of the analysis of the sociological and psychological interrelationship influences.

Context specific factors that might mediate the influence of the interrelationship on innovation capability, such as the strategic philosophy, liquid assets, market orientation and innovation ambitions are analysed and evaluated in detail within Chapter 6under situational influences.

5.1 Social Interrelationship Influences

Analysis of the interviews indicated that social interrelationship influences revealed in the owner-CEO interrelationship are likely to act as antecedents to the innovation capability of the enterprise. The cases indicated that corporate structure, owner/CEO cooperation, corporate governance, conduct and communication were important factors with potential to influence the innovation capability in German MSEs. A summary of the primary differences between the three cases concerning these influences is shown in Table 4.

Table 4: Social Interrelationship Influences

Social Interrelationship Influences	**Case A** Entrepreneurial oriented ownership structure	**Case B** Managerial oriented ownership structure	**Case C** Paternalistic oriented ownership structure
Corporate Structure	Constructive debate culture, decentralized, functional, horizontal hierarchical	Conflict prevention culture, decentralized, vertical hierarchical	Authoritarian displacement culture, central, vertical hierarchical
Owner/CEO Cooperation	Cooperative advising, bilateral, amicably commercial, face to face	Directive supervising, unilateral, businesswise with class distictions	Patronizing, integrative, unilateral, family relation and familial hierarchical
Corporate Governance	Task oriented, parity and complementary, trustful	Key figure oriented, ambitious and reviewing	Heritage oriented, autocratic and unpredictable
Conduct	Independent functional progress-driver with time restrictions	Profit oriented conroller with competence limitations	Patronized political blocker with signs of pride
Communication Pattern	Skilled and spontaneous	Factual ritualized	Jovial, bluffing and repectful

5.1.1 Corporate Structure

Every inertial (self-contained) system follows a specific structure and culture. This culture gives the participants in the system orientation (Warnecke, 2013) and provides lifestyle, education and nurture. Hence, it is not surprising that the corporate culture has influence on an enterprise’s success in general (Heinen and Fank, 1997) and in particular on the innovation capability (Van de Ven, 1986). A kind of cultural complexity (Garud, Tuertscher and Van de Ven, 2013; Garud, Gehman and Kumaraswamy, 2011, Garud and Gehman, 2012; Buse, Tiwari and Herstatt, 2010) occurs in each of the three studied cases and will be discussed to illuminate the potential interrelationship influences in respect to the innovation capability.

The analysis indicated categorical differences between the three ideological enterprise cases within the owner-CEO interrelationship. Whilst in the entrepreneurial oriented case an atmosphere of constructive debate exists, in the managerial oriented case there is an overestimated conflict prevention and in the paternalistic oriented case an authoritarian displacement culture dominates. The organisation of the paternalistic oriented enterprise has a corporate structure, which is vertical hierarchical, organised by an imponderable owner and a CEO who has been recruited out of the domestic environment (advisor). The CEO in the entrepreneurial oriented enterprise has been recruited by a longer recruitment process in order to find the perfect team composition for this crucial enterprise position (owner), to act in a corporate structure that is decentralised, organised with a horizontal hierarchy, systemic, functional, and confident. The owner of the managerial oriented enterprise was interested in employing a CEO who was able to implement and transform his interests and objectives, and tried to hire a performing agent. This policy underlies the culture of conflict prevention and fits into the decentralised, vertical hierarchical and key figures oriented controlling organisation. “We took the CEO out of our network” (owner) to enable quick access to the right person, which would also serve to reduce recruitment costs.

The entrepreneurial oriented owner claims that a culture of constructive debate reduces the inhibition level between him and his CEO and “likes to set an example of this conduct” (owner). In the operational manner the owner supports this claim through the existence of a decentralised, systemic, functional, and confident corporate structure. The owner claims that this is a culture that contains symbolic rules, and employees bring these rules and novelties into the enterprise, which defies individuality and the organisation (Sternberg and Kaufman, 2018; Hansen, Trantrow, Richert and Jeschke, 2011; Csikszentmihalyi, 1997). He is not willing to leave this (in his eyes) mandatory owner’s responsibility in the hands of others and examines the contact with the organisation because he believes that the interrelationship between him and his CEO is related to the innovativeness of the enterprise (Dansereau, Graen and Haga, 1975, Graen and Scandura, 1987). He takes over the supreme leading level in the enterprise and motivates his CEO to follow his way of thinking and acting.

The analysis indicated that the CEO in the managerial oriented enterprise has to deliver exactly what the owner is expecting. “The owner is not telling me his vision. He is focused on profit and does not like to discuss this” (CEO). The CEO has to prove himself continuously by providing the owner with reviews containing numbers and figures in order to adopt the norm of quantitative success indicators. “The owner is preventing conflicts from the beginning” (CEO). His role is formalised, limited, autonomous and mediates planning routines with semi-professional management skills. The CEO´s roadmap is the budget agreement and on this agreement, he will be measured. He has enough space and autonomy to do things in his own way but he has to deliver the owner’s objective. The CEO argues that his owner supports him if necessary, seldom by his initiative but always against the backdrop of reaching his monetary target. The CEO is interested to support the owner’s interest because of his incentive according to his salary agreement, which documents that the owner appraises his leadership role by defined standards and reward announcements through the achievement of objectives. The owner promotes the compliance of his CEO through rewards and punishments, and influences the interrelationship in a significant way. The CEO transacts this culture (Bass, 2008) in the same way.

The paternalistic oriented owner attempts to displace, by his authoritarian conduct, necessary and further changes. A strong leadership is not recognisable. The owner is not able to govern the enterprise into the next period. “I am restricted in my actions by the owner,” argues the CEO, and realises that she is not face to face within the interrelationship with the owner; she is less autonomous and has limited responsibility. The authority of the owner is too strong, the power of the CEO too weak, and these two characters dictate the culture of the interrelationship. “The point is that we have to take respect of the oeuvre of the owner” (CEO); this respect and the interest of being financially secure in his declining years displaces all other actions (advisor). The central structure, with its authoritarian, vertical hierarchical owner, makes the interrelationship imponderable and difficult to figure out. The resilience of the interrelationship is weakened in the current situation.

As long ago as 1957, Selznick pointed out how important it is to manage internal conflicts in an organisation’s structure and system in order to foster the creativity of the individual and hence the innovation capability, which was echoed in 1986 by Van de Ven. The innovation capability of the firm is likely to be increased if the owner-CEO interrelationship has a culture where individuals meet face to face and constructive communication is given. Hence, an atmosphere of constructive debate and a functional, horizontal hierarchic corporate structure, as present in the entrepreneurial enterprise, is likely more positive for the innovation capability. The next section provides the influence potential in respect to the owner-CEO cooperation.

5.1.2 Owner-CEO Cooperation

Innovation underlines the need for cooperation between individuals within an organisation, as well as revealing the relational complexity of organisational life (Garud, Tuertscher and Van de Ven, 2013; Garud, Gehmann and Kumaraswamy, 2011; Garud and Gehman, 2012; Buse, Tiwari and Herstatt, 2010). These definitions are also relevant for the CEO-owner interrelationship and not only for a single individual (Van de Ven, 1986) and applies mutatis mutandis to a wide variety of technical, process, product, and administrative kinds of innovations

(Casson, 2003). Hence, innovation is more a network and team building effort (Van de Ven, 1986) among people who, by transactions, become sufficiently committed, therefore innovation becomes a question of the team composition and the characteristics of the actors (Bantel and Jackson, 1989; Amabile, Schatzle, Moneta and Kramer, 2006) and has potential to influence, through the interrelationship, the innovation capability of the enterprise.

The kind of cooperation between the entrepreneurial oriented owner and his CEO is revealed in a type of cooperative-advising behaviour. “I see me as an advisor. Everything is turning around the enterprise. It isn’t about vanity” (owner). This kind of bilateral approach is the basis for an interrelationship face to face and low power distance (Davis, Schoorman and Donaldson, 1997), which is amicable, trustful, and at an honest level and full of mutual recognition (Donaldson and Davis, 1989; 1991). This is aligned with the targets of the owner, which demonstrate a common thinking and acting. The analysis showed that the owner feels well, gets enough room for development, finds trust, and feels happy. In a joint meeting, the entrepreneurial owner and the CEO confirmed that since the beginning of this cooperation they have experienced everything “shit” that is possible and have jointly solved these problems. “I made also mistakes, failures, and wrong decisions but my owner stands behind me and psyches me up” (CEO). This behaviour is the basis on which to build confidence (Bowlby, 1958) and demonstrate the maturity (Csikszentmihalyi, 1994) of the interrelationship, forming over the year a cohesive team (Pelz and Andrews, 1966; Blair and Stout, 2001) at eye level. “How can I create a cooperation of confidence, build up on trust?” asks the entrepreneurial oriented owner himself, a question that has influence on the self-trust of the CEO to the power of the interrelationship and the assumption of responsibility. The statements demonstrate allegorically the owner-CEO cooperation, which is, in the practical cooperation of the power execution level, designed by harmony and togetherness, is based on a platform of collectivism and hence has positive potential to influence innovation ambitions.

In stark contrast stands the cooperation between the paternalistic oriented owner and his CEO. The analysis showed that this case perfectly demonstrates a paternalistic dominated behaviour (Johannisson and Huse, 2000) of an authoritarian family supreme head and his CEO. Trust is very limited, loyalty natural. “I am able to define my activities by myself, but in a quite limited way. The radius of operation is interpreted narrowly and always loaded”, pointed out the CEO. “If I have new ideas I have the feeling that my father freezes me” (CEO). This characteristic and individual trait of the owner has significant influence on the power execution and autonomy of the CEO (Mumford, Scott, Gaddis and Strange, 2002; Stein 1974; Woodman, Sawyer and Griffin, 1993; Amabile et al., 1996). Emotions are marginal at a business level. The CEO is connected to her owner like a small girl to her father, which will have ostensibly negative implications for the interrelationship to the innovation capability (Eisenhardt, 1988; Fauchart and Gruber, 2011). The necessary acceptance of her status as CEO in the organisation by the owner is marginal. The owner always sees interrelationships as alliances of dependency, which has a significant influence on the CEO in respect to management actions, policies, and procedures (Kozlowsky and Doherty, 1989). The CEO is demotivated and dependent and has thought “to chuck the whole business” (CEO). Currently, family ties and the blood relationship are stronger than any self-serving or collective serving interests. The charismatic father has an intimidating effect on the daughter; he lets her be awestruck and paralyses her in her daily activities and creativity. She is not able to express her emotions in the interrelationship with her owner, and feels utterly frustrated and unsatisfied, which leads to a reduction of communication (Menges, 2015) and likely of the innovation ambitions.

It seemed that the CEO in the managerial oriented enterprise has found an arrangement with the directive supervising character of the owner and accepts the requested class distinction. “I do my own thinking in the time between the next meeting with my owner” pointed out the CEO, “and preparing all the necessary data for the next meeting…”. The mutual trust within the interrelationship is conditional and depends to what extent the goals were reached in the past and what kind of variance of the budget exists. The CEO pointed out, “In the case that my cost of sales quote is in the right frame we have an easy review.” The CEO feels the pressure to succeed, which could have a potential influence on the innovation capability (Jeschke, Isenhard, Hees and Trantow, 2011). The owner’s identification with the enterprise is not significant (Yuckl, 2002). The CEO is unilaterally dependent from the owner. Discussions are perceived to be fruitless. The owner’s only sorrow is how he can control his activities when he is not available in the enterprise. Other interests are only simulated. “My owner asked me about my family, but with no serious interest” (CEO). The CEO currently feels secure in the enterprise but is not bound to it.

The analysis indicated that the levels of owner-CEO cooperation are manifestly different in the examined cases and bear potential to influence the innovativeness of the enterprise (Danserau, Graen and Haga, 1975; Grean and Scandura, 1987). While the entrepreneurial oriented owner seeks cooperation face to face with his CEO, the managerial oriented owner’s focus is on numbers and figures and the paternalistic oriented owner prefers cooperation within class distinctions and contributes technical experiences (Mumford, Scott, Gaddis and Strange, 2002). The entrepreneurial oriented owner and his CEO are more equal and distinctive in their behaviour, which has influences on their action (Arendt, 1958). The opposite is the case in the other two enterprises. The most accordance and satisfaction were uttered by the CEO in the entrepreneurial oriented case about this owner, and equally about the degrees of freedom in their daily operations, which are significantly related to the innovation capability (Amabile, 1988; 1996; Amabile and Gryskiewicz, 1987). Hence, the innovation capability of the enterprise is influenced by relational behaviour like trust and mutual support rather than by pure rational facts. If the owner stifles this individual freedom, like in the paternalistic oriented case, the creativity of the CEO is more limited. The CEO of the managerial oriented case also feels quite autonomous in his operation, but with a significant difference. The CEO in the paternalistic oriented case is formally blocked by her owner. Hence, the entrepreneurial oriented case generates likely the best conditions to foster the innovation capability - by the owner-CEO cooperation with similar biases that sustainably support the organisation (Stevenson and Lundström, 2001); this implies the interrelationship influence to this topic on a more similar basis than the corporate governance conduct could.

5.1.3 Corporate Governance

Corporate governance is one crucial factor that influences an organisation´s capability to manage innovation (Pfingsten, 1998; Smith, Busi, Ball and Van der Meer, 2008; Miozzo and Dewick, 2002; Aguilera, 2005; Tylecote and Ramirez, 2006; Belloc 2012) and will be among others that are discussed in the following section.

The paternalistic oriented owner´s corporate governance revealed as undoubtedly heritage oriented, autocratic and in its execution somewhat unpredictable. Blood relationship is the most important aspect of her selection as CEO, not specifically leadership competence. The owner feels that he is the head of the family and the enterprise (advisor). The owner also acts in parallel as co-CEO, with negative impact to the CEO´s autonomy. Hence, the leadership structure is predominantly opportune and not open to criticism (“Criticism isn’t allowed”, (CEO)), is not forward-oriented, progressive, or proactive (CEO) and appears to be less innovation oriented. The owner emanates a narcissistic character, is “autocratic, and unstructured” (advisor). The leadership function depicts the owner’s eyes as being present but not his actions. He likes to sit in the decision hub and central checking point and believes this to fulfil his assumption of responsibility. The decision latitude and autonomy of the CEO plays a crucial role in the capability to generate an innovation atmosphere (Graen and Scandura, 1987). The CEO does not have the courage to take the responsibility. She is quite inconsistent and unpredictable in her leadership style. Her self-statement is that she likes to "keep their employees on a short leash" but operatively expresses her style as arrogant. Respect, loyalty, admiration, which the CEO believes that she offers her employees, stand in direct conflict with reality. A clear leadership style is not recognisable, neither transformational nor transactional (Bass, 1990). The CEO herself hides behind the owner and seeks shelter (advisor) and symbolises a wait-and-see attitude. The innovation capability is likely to be impacted negatively by this interrelationship behaviour.

The CEO in the entrepreneurial oriented enterprise appeared as competent, governed by an operational leadership style, and is able and entitled to act autonomously. The corporate governance is task-oriented, has parity and is complementarily distributed among the actors; it is based on a trustful interrelationship, which fosters creativity and organisational innovation capability (Monge, Cozzens and Contractor, 1992; Amabile, 1996). The entrepreneurial owner sought from the beginning a CEO who was able to lead the enterprise with him in common interests and had social and functional competence. The owner believed that the individual makes the difference and is able to bring the enterprise into renewal. "We have the same values in our leadership principles and attempt to reach conciliation in our action. My owner trusts me in my actions. I have his respect and I realise also that he involves me in all his strategic reflections" (CEO). The owner collaborates with his CEO to identify the needed change, creates the vision, acts as developer to guide the change by inspiration and if necessary by support, and executes the change within the interrelationship, which is likely positively related to the innovation capability (Fauchart and Gruber, 2011; Bass, 1990). This conduct is revealed in a transformational leadership style and indirectly preferred traits of mostly intrinsically motivated creative people (Mumford, Scott, Gaddis and Strange, 2002). "I take myself back and control my visionary inspiration and intervene in a task-oriented way. We do it together" (owner). The CEO shares this transformational leadership style in an interrelation-oriented, authentic, communicative, and predictably preferred way, which in this way operationalises a more human dimension in organisations (McGregor, 1967), with a positive influence on the innovation capability (Jansen, Vera, and Crossan, 2009). The owner gives his CEO enough power and autonomy, which serves, among other things, as a platform that enhances the innovation capability (Csikszentmihalyi, 1997; Amabile, 1988; 1996; Sternberg and Kaufman, 2018).

The managerial oriented owner lets his CEO operate freely in the business on a day-to-day basis. The corporate governance is in general key-figure-oriented, ambitious and dominated by direct cooperation. Creativity and passion for the work is not a requirement. The owner claims a one-way loyalty and tolerates only marginal input from the CEO. Even if the owner has autonomy to act, the real authority and corporate governance in respect to strategy and vision takes place in the background between the two main shareholders and investors. The CEO describes the strategy and the vision, the owner “gives his blessing to it” and controls it. The idea is generated by the CEO and “the owner adopts it as his own idea and pushes it to success, which occurs in all reviews”, argued the CEO. The owner´s leadership style is focused on supervision and performance, not on autonomy and power delegation with a contractual reward system and incentives, which is in line with the theory of transactional leadership style (Bass, 2008), and has likely a crucial impact on the innovation capability through the owner-CEO dyad. The leadership operates top down, whereby the owner avoids taking responsibility (Hansen, Trantow, Richert and Jeschke, 2011; Mumford, Scott, Gaddis and Strange, 2002). The CEO is also number and control oriented and temporarily imperious. He is not a proactive manager, less able to lead and favours acting reactively (2nd tier manager). He has a vision but is not interested in whether people are able to follow him. The emphasis is always on the “I” in the foreground of the CEO´s argumentation. The interrelationship in this case is partly dominated by egotistic individuals and not by cooperative actors.

The dominant commercial interests and the lesser level of autonomy and power-granting behaviour of the managerial oriented owner seem to inhibit creativity and organisational innovation capability. This is in contrast to the entrepreneurial oriented owner, where the individual's liberty and space to generate their own world and try to change the world a little bit is more apparent. The style and leadership between the owner and the CEO make a big difference in the nature and success of creative efforts (Mumford, Scott, Gaddis and Strange, 2002; Smith, Busi, Ball and Van der Meer, 2008), and this reveals that the mutual satisfaction of the interrelationship in the entrepreneurial case is supportive, especially in their bottom up and transformational leadership style (Bass, 1990; 2008).

5.1.4 Conduct

The analysis showed that the managerial oriented owner acts as a controller and is well organised in respect to their purposive behaviour, and profit oriented. Market and technology competence limit his operational cooperation. The conduct is not seriously task-oriented and is only a pseudo construct. The entrepreneurial oriented owner seems limited by time in terms of his active cooperation, as the enterprise is in continuous growth and needs his input at several places concurrently. He is an autonomous functional progress driver and is aware about his strategic importance for the enterprise. The paternalistic oriented owner has moved more and more over the years to being a patronising political blocker who lives in the past with overstated pride in past success and dominates the CEO in an absolutist way.

The interviews indicated that pride, political thinking and the conduct of a blocker self-justify the role and the behaviour of the paternalistic oriented owner. "Our owner is an old patriarch who isn't able to cling to office. He acts as a model dinosaur", pointed out the advisor, which has significant impact on the innovation capability (Franke, 2014).

The enterprise reveals enormous reluctance to fix the actual status and is infected by the owner´s mentality of “wait and see”. The pride in the past dominates current actions. The owner is politically driven by a jovial kind of behaviour and attempts - by continuance of the enterprise - to secure his pension plan (advisor). The owner’s behaviour limits the autonomy and power of the CEO tremendously and expresses dictatorial behaviour. “My ability to act is seriously limited” pointed out the CEO. “I am only here to stamp out small fires. Strategic goals are not desired” (CEO). “One ought to think that the owner should not take his CEO for granted” (advisor). The owner is less protective towards the CEO. The motivation of the CEO reduces to a minimum under these circumstances. She feels isolated and alone and denies imitating a paternalistic standpoint but in practice she adopts the same habitus behaviour as her father (Bourdieu, 1987). The CEO/daughter is anxious to please the father and is visibly unable to step out of the father’s shadow. This behaviour secures the CEO’s job, hence innovation efforts are nipped in the bud (Eden, 1984), based on the owner-CEO interrelationship.

The CEO in the managerial oriented case has more independence and responsibility in his operations. He is quite secure in his position because of economic success, but with a higher moral hazard than the CEO in the paternalistic oriented case. This success is endangered by the CEO´s misconduct. Within this operation the CEO acts quite autonomously under provision of his contract details. “Autonomy and trust will be hard earned and measured by budget deviations” (owner). Through this behaviour the owner reveals the reality of his job description within the interrelationship: profit-oriented controller. Technological and market specific targets are welcome but need to fit into the short-term budget scenario. Short-term economic (Trantow, Hees and Jeschke, 2012) items build quasi barriers for the innovation capability in the enterprise (Acs and Audretsch, 1990). “The owner´s lack of technological and market relevant competence” (CEO) has weak supporting influence on the innovation capability of the enterprise from the viewpoint of the owner (Mumford, Scott, Gaddis, and Strange, 2002; Halbesleben, Novicevic, Harvey and

Buckley, 2003; Howell and Avolio, 1993; Elenkov and Manev, 2005). Deductions in respect of quantitative values will be every two months (Deetz, 1992; Johannisson and Huse, 2000). A breeding ground for innovation is available and underlies the action readiness of the CEO (Weisberg, 2006).

The scope of the CEO in the entrepreneurial oriented case to innovate and move into other ventures seemed to be larger. The chances to throw the operation into uncertainty are more limited. This opportunity is based on the extensive independence and autonomy of the CEO and is evidenced in the job security and the support of the CEO. The widely independent autonomy of the CEO is aligned with the interest of the owner, who actively drives strategic and innovative processes. “I am the driver. The CEO and myself work quite close together, have continuous communication, shared responsibility and concerted action. I am also the sounding board for the CEO and support him to find new markets to expand our system-character of the enterprise” (owner). The purposive behaviour of the owner is functionally driven and originates and promotes innovation, which is likely one of the key factors for the innovation capability (Franke, 2014; Amabile, 1986). He is always driven by this entrepreneurial spirit but is limited in terms of the continuous growth of the enterprise by the fact that time more and more restricts his cooperation with the CEO, and hence influences the interrelationship. The autonomy of the CEO to create new ideas and foster the innovation urge of the organisation allows room for manoeuvre, which is characteristic of the whole organisation and innovation friendly (Amabile, 1982).

The higher-than-average autonomy of the CEO in the entrepreneurial oriented case, and the proactive support with similar bias (Stevenson and Lundström, 2001) of the owner (Eisenhardt, 1986), manifest a higher innovation capability. Similarly, the CEO is autonomous from the managerial oriented owner, but he does not find the same support and care by his owner that the CEO in the entrepreneurial oriented enterprise does. The managerial oriented degree of autonomy does not limit him in the daily business. However, it seemed impossible for the paternalistic oriented owner to innovate before she is able to deliver herself out of the clutches of the owner. Only the entrepreneurial oriented owner can claim that innovation activities are able to be undertaken by his CEO (Stevenson and Lundström, 2001) to act and hence likely support the innovation capability of the enterprise through the owner-CEO interrelationship.

5.1.5 Communication Pattern

The communication pattern between individuals moves more and more to becoming a crucial factor (Luhmann, 1987) and diverges significantly in the studied cases. While the entrepreneurial oriented owner is quite communicative, skilled and spontaneous with his CEO, the managerial oriented owner is only factually communicative and ritualised, as revealed by constantly recurring review meetings with his CEO. The paternalistic oriented owner appears to be jovial and friendly in his communication and appreciated by his CEO; he maintains this image.

"The direct reports are quite modest in communication towards the owner and act with reserve. They all demonstrate respect for the lifework of the owner" argued the advisor in the paternalistic oriented case, who also supports the authoritarian displacement culture. The final decision - and word - rests with the owner (statement of several employees and advisor), even if the communication gets more and more superficial and reactive, even the bluffing style that the owner affects. "Forward thinking and forward communicating is difficult for him, he is only telling tales from the past and success stories from a long time ago" (CEO). In meetings, the owner is like a person who is only temporarily part of the discussion but switches on when decisions have to be made; he states the direction and no one has the courage to say something against him. The owner dominates the situation by non-verbal communication and supports a one-way communication that might be counter-productive for the innovation capability of the enterprise because only with active communication is an organisation able to develop innovations (Olson, 1987; Monge, Cozzens and Contractor, 1992; Van de Ven, 1986).Good communication between CEO and owner, in both directions, is an essential activity to improve the innovation capability (Amabile, 1996; Scott and Bruce, 1994).

The managerial oriented owner is ritualised and less responsive in the meetings. All the time he follows the same procedure and it is easy to predict what he likes to know. “The meetings with him take the whole morning and we discuss only numbers. When I give a longer presentation, it can happen that he gives you the impression that he is uninterested, is not addressable, and temporarily falls asleep” (CEO). Visits are seldom punctuated by small talk and superficial conversation (2nd tier manager). The interest is marginal and is communicated by several gestures and actions. “There is seldom time for longer discussions with my owner. He is always under time pressure and we do not discuss future commercial-related issues, which is a pity,” pointed out the CEO. The owner reveals in this communication behaviour his real interests and forgets that communication is always a transmitter and receiver issue. To know what the CEO is doing in the absence of the managerial owner is revealed only in communication sessions on the phone. Even if he knows how important communication is, he is not willing or not able to handle this part of operational management in an attractive and sufficient way.

In opposition to the managerial oriented owner appeared the entrepreneurial oriented owner, who listens to his CEO and signals deep interest in the interrelationship, his problems, and sorrows, which is highly appreciated by the CEO. “You have to be authentic to your CEO. My words have to have equal actions” (owner). The CEO confirmed the open communication style of the owner and that one can feel that he acts honestly with much blood, sweat and tears for the organisation, and that finally that is what is most appreciated about the owner. “We both avoid building hurdles with our communication and we are an example of communication and openness from the top" (CEO). On the other hand, the self-critical owner is never satisfied with his own communication style: "We need new communication tools because I believe we don't reach all our employees and it gets more and more difficult to understand our vision and strategy" pointed out the owner, describing thus his current problems with the communication avenues available at present. The outcome may appear to imply that mutual communication in the interrelationship will likely have positive potential influences on the innovation capability.

An open communication between owner and CEO is a key indicator for innovation capability (Monge, Cozzens and Contractor, 1992; Heide et al., 2018). The communication openness (Van de Ven, 1986) opens doors, and qualifies as a link to improve the innovation capability in the organisation (Scott and Bruce, 1994) under the condition of "one voice communication". The smart communication behaviour of the entrepreneurial oriented owner is revealed as a paradigmatic method to try and reach the CEO´s ears further, and thereby further motivates his CEO through subsequent behaviour (Eden, 1984). This is a necessary interrelationship platform for creative people (Van de Ven, 1986) and hence for the improvement of the innovation capability.

As we have seen, an ostensible influence on the innovation capability is revealed by the social interrelationship influences. On this basis, I may conclude that the corporate structure, the owner-CEO cooperation, the corporate governance, the conduct of the two actors, and the communication pattern between the owner and the CEO have a significant influence. To recap, it is obvious that an open social interrelationship is crucial. The best example in this research seems to be the entrepreneurial dominated case, where the owner is convinced about the need fora qualitative, well-working interrelationship with his CEO. The opposite seems to be the reality in the paternalistic oriented case. Father and daughter should have a good working togetherness on the basis of their blood-ties, which is definitely not the case. The analysis indicated that the owner dominates, and in many cases dictates, the social interrelationship and stifles any upcoming creative activities of the CEO in a seminal state. The managerial owner seemed to be more open. He likes to dominate the interrelationship but only for the time of active togetherness in several meetings over the annual period. In the meantime, he is quite disinterested and lets his CEO work autonomously. The analysis showed that only the entrepreneurial owner is aware about the power and chances that an open and creative interrelationship behind rational affects with his CEO is able to generate.

Certainly, the innovation capability is likely impacted by the social interrelationship influences if the owner and the CEO do have a sufficient corporate structure, a mutual cooperation willingness, and communication, and a corporate governance and conduct that finds mutual consensus within the owner-CEO dyad. As revealed in the section, there is a mutual communication between owner and CEO in a dynamic environment that is crucial for the innovation capability of the enterprise. Of further significance is the autonomy of the CEO to enjoy his/her creativity and the transmission of power and responsibility in the hands of the CEO within the interrelationship, and more thoughtful behaviour of the owner to influence the innovation capability positively.

Further influences on the innovation capability by the owner-CEO interrelationship in another context are expected by psychological interrelationship influences, which is part of the thematic analysis findings of the next section.

5.2 Psychological Interrelationship Influences

Psychological interrelationship (Table 5) influences reveal the individual character of the owner and CEO within their interrelationship and act as antecedents to the innovation capability. The psychological effects of the owner are therefore expected to be more influential than the CEO.

Table 5: Psychological Interrelationship Influences

Psychological interrelationship influences	Case A Entrepreneurial oriented ownership structure	Case B Managerial oriented ownership structure	Case C Paternalistic oriented ownership structure
Stimulus	Creative strategic driver, technology enforcement	Result driver and problem solving	Enterprise survival
Expectation	Create out of qualitative data proactive success	Generation of commercial key success figures and profit	Ensure the business's continuity for the next generation
Motive	Enterprise success	Profit earning	Old age provision
Owner´s Support	High attachment to employees and company	Significant interest to improve private wealth	Conservation of assets and social power

The next section examines the individual psychological interrelationship influences with regard to the different ideologies (Johannisson and Huse, 2000). Diverse effects emerged from the literature and the process of the current investigation and the extract of the coding process, including stimulus, expectation, motive, and support of the actor. The summary of the primary differences between the three ideologies is listed in Table 5and will be discussed in the next section.

5.2.1 Stimulus

Stimulus conceptualises an individual conduct; it is related to stimulus-response theories of personality (Hall and Lindzey, 1957; Proctor and Vu, 2006) and is deemed to be the basis for individual behaviour, constituting the basis for perceptions (Gregory, 2004). Stimulus helps to scrutinise what drives and motivates the owner and the CEO.

The entrepreneurial oriented owner is revealed as a creative strategic driver who likes to enforce the surface technology basis in the market, whilst the managerial oriented owner is motivated to drive the result and the economic success and intercalates himself in the case of bigger, unforeseeable problems. Currently, the paternalistic oriented owner is predominantly interested in helping the enterprise to survive.

The interviews indicated that the paternalistic oriented owner knows that he is a part of the strategic problem that is grounded in the omissions of the past (advisor). The CEO sees him in a blocking role for new ideas who gives no supervisory encouragement in terms of creativity and operational support. A renewable manufacturing process from an isolated manufacturing application to a flow manufacturing process, which was initiated by the CEO, is permanently criticised. The owner is seemingly not able to generate new ideas. He is no longer the inventor or developer of creativity (Fauchart and Gruber, 2011), which leads to stagnation. He likes to retain the present state (advisor). The CEO pointed out, “Forward-facing thinking is difficult for my father. He has not the motivation to support me, only his own interests”. This reveals that the CEO finds no acceptance of her creative efforts by the owner, she has no operational power, which could have negative influences on the innovation capability (Csikszentmihalyi, 1997; Sternberg and Kaufman, 2018). In discussion with the owner it was difficult to hear motivational reasons from himself. The CEO is too weak to offer opposition. She is predominantly motivated to please her father. Her past as “youth’s rebellious daughter” (CEO) has disappeared. To be still in denial about this fact she is currently in a status of trying to please the father. Father’s will be done!

The analysis indicated that the CEO in the entrepreneurial oriented case is motivated to create something new. “I like to create innovations”, pointed out the CEO in revealing his stimulus, which becomes confirmed in operative actions and is documented by a proactive transmission of responsibility from the owner to the CEO. “My owner is the real driver and is part of my motivation” (CEO). The owner and the CEO are motivated by the same stimuli and interests. They are similarly not interested in external things like big cars, big representative offices, secretaries, etc. They are equally stimulated to change the world in their technological environment.

Status symbols stimulate the owner and the CEO of the managerial oriented case. Both are motivated to improve themselves and drive results to be better. The owner is financially stimulated and has this behaviour adapted by the main investor, who is acting in the background (advisor statement). The CEO is differently stimulated. He likes to solve problems. “He likes it when employees come to him and ask him for help, especially about sales-related problems,” (2nd tier manager). In this situation, he is more the power-seeking hero instead of the more thoughtful superior. “He likes to be the agent for the investor and likes to improve his current status step by step. He is a good henchman” pointed out the advisor, and he fulfils the rules of the domain to be successful and so reach the achieved target. Personal needs are met and the interests are aligned with that of the owner’s structure. The owner and the CEO can inspire an innovative environment to improve individual motivation and hence a platform for the innovation capability.

In the entrepreneurial oriented case, both actors act as creative champions (Elenkov and Manev, 2005), which is important in creating new ideas and innovations (Van de Ven, 1986). Dissent followed by search for consensus is claimed to be the common approach within this interrelationship. The paternalistic oriented individuals are interested in protecting the status quo and the managerial oriented individuals want to stimulate an improvement in the profit, which reflects individual motivation and, in both cases, less togetherness in their interrelationship.

5.2.2 Expectation

The entrepreneurial oriented owner is mainly interested in generating proactive success out of substantial data. The creation of innovation stands in the foreground. In the managerial oriented enterprise, the owner has the predominant expectation to generate profit out of commercial circumstances and increase his own wealth, whilst the paternalistic oriented owner seeks the chance to ensure that his enterprise survives for the next generation (Johannisson and Huse, 2000).

The paternalistic oriented owner likes to preserve the status quo. The CEO suggests that the owner is 'power-mad' and is predominantly led by gut-instinct decisions. The analysis indicated that his willingness to change something is marginal. His risk exposure is close to zero and he demonstrates absolute passive behaviour (advisor). To guide the business into the next generation and secure his own retention plan is the dominant expectation of the owner. The CEO is his sidekick and not on an equal footing within the interrelationship.

The analysis showed that the managerial oriented owner is believed to wish to increase his wealth and sees only economic key figures (advisor) as evidence success. The owner acts actively to reach his targets and is satisfied when he reaches the budget plan and gets his expectations confirmed (CEO). If the forecast gets out of hand over time he will actively attempt to correct the proceedings. The owner's priority is hard fact oriented. To have an interrelationship with his CEO face to face does not enter his mind. Social or emotional influences are secondary.

The study showed that the entrepreneurial oriented owner is highly interested in acquiring new knowledge, indeed he called himself "hungry of knowledge[15]". He gobbles qualitative information as evidence characteristics to create his forward strategic vision and expects to change

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[15] wissbegierig in German

the world in his selected technology environment. He tries to control his expectation by proactivity (Csikszentmihalyi, 1997; Sternberg and Kaufman, 2018), together with his CEO and the organisation, and attempts to transmit his own expectations to others. He is the example par excellence for renewable change organisations. “He knows exactly what he knows and wants,” pointed out the CEO. Likely, this owner expectation tends to be more innovation capability friendly than in the other two cases, but presumably the managerial owner expectations could also be positively related to the innovation capability and based on togetherness (Van de Ven, 1986; Mumford, Scott, Gaddis and Strange, 2002).

5.2.3 Motive

Whilst in one case (the entrepreneurial oriented case) the long-term enterprise success stands clearly in the owner’s focus, the managerial oriented owner´s focus is more on the profit-earning character in the foreground. The paternalistic oriented owner has the owner’s old age provision and the economic survival of the family in the motif foreground.

Confidential, reserved, careful, and lax kind of behaviour stands in the foreground of the paternalistic oriented owner against third parties, and this also justifies the psychological traits and the openness in the interrelationship with his CEO, which appeared in the analysis. The advisor pointed out that “vital issues” stand in the foreground. Openness to experience does not (advisor). Thinking about strategic goals or the vision is undesirable. There is a huge gap between thinking, reading, and acting. Ostensibly it seems the owner is more considerate about the CEO and daughter, but he is profoundly more interested in handing over the enterprise to a person who is able and willing to lead the enterprise in his own interest. As long as he is able to lead the enterprise he will do it and he will not transfuse the power to his successor. The owner’s motive is to have the power as long as possible in his own hands, which appears as a single motive to be less innovation oriented (Sternberg and Kaufman, 2018).

The interviews indicated that the managerial oriented owner´s and the CEO´s behaviour are self-serving and controlling, and close to an agent's behaviour, with a clear rationale and opportunistic economic interests (2nd tier manager). In this behaviour, the owner unambiguously expresses his vision and model. His psychological traits are represented as target oriented and effective, and as long it is in the success area, he has a friendly approach. Outside the main target he is calm, reserved, consistent, and realised the owner to be a solitary man when in contact with his CEO, and as an agent when in contact with his main investors. This "weather vane" behaviour has potential to affect the innovation capability.

The analysis showed that the entrepreneurial oriented owner is more a dynamic team visionary. In his action pattern he is selfless and smart. All the time he has the organisation in mind and generates out of this his own satisfaction and success. His psychological traits are characterised as confident, sociable, curious, organised and cooperative, and supportive of individual creativity (Matthews, Deary and Whiteman, 2003; Ko and Buttler, 2007). He is well organised but at the same time a slob, as the CEO pointed out. "Sometimes I have a problem to understand him and I cannot understand his current vision, but over time when I realise the chaos I have to structure his ideas and then we find a common way of realisation". He is convergent and divergent in thinking at the same time and has found a supplementation with his CEO, which is noticeable within the interrelationship. Awesomeness and genius in this case are siblings, and this justifies the action patterns of creative people (Csikszentmihalyi, 1994; Sternberg and Kaufman, 2018). The owner is totally open to experiences and has no fear of the future. He claims all this from his CEO, enjoys this for his own sake and defines these traits as organisational goals and as related to the innovation capability (Scoot and Bruce, 1994).

The innovation capability is likely to be impacted positively if the owner expresses his motive in his behaviour and bias, with his smart openness to experience and his supportive character, which stimulates the CEO to be creative and to innovate (Stevenson and Lundström, 2001; Sternberg and Kaufman, 2018).

5.2.4 Owner's Support

The support, estimations, and characteristics (Mumford, Scott, Gaddis and Strange, 2002) of the owners in the three examined cases diverge significantly. Whilst the entrepreneurial oriented owner has a high attachment to his CEO, the managerial oriented owner is significantly interested in improving his private wealth with a low interest in the CEO´s needs. The paternalistic oriented owner focuses on the assets of the family firm and the family members and of his social power. A depth of interest in the staff individual concerns is minimal and superficial.

In the analysis it appeared that the paternalistic oriented owner has a quite high attachment to the enterprise: “In my enterprise….” is the standard idiom of the owner. He is the great guardian of the family interests and also the top bread-winner of the family. “The enterprise is his baby” (advisor). On the other hand, the attachment to the CEO is reduced to a jovial and superficial kind, which could have an influence on the innovation capability (Van de Ven, 1986). The owner’s appreciation is perceived to be fake and dishonest. His interrelationship with the CEO is in a way protective and dominated by the traditional father role. The owner is quite passive about how the current status can be transferred to the next generation. His support is to retain the current status to indemnify the family firm. His intuition, traits and empathy to understand his CEO is weak, but when it is necessary to understand operational issues he is quick on-line adjustments. Currently he is controlled by fear and pride. Trust is not given, which has significant influence on the support and the innovation capability (Monge, Cozzens and Contractor, 1992; Amabile, 1996). The CEO seems not to be unequivocally attached and this underlines that the owner´s support is more individual, which tends to be less innovation capability friendly. This missing owner's support for the CEO likely conceivably influences the interrelationship negatively.

Contrary to this it is revealed that the CEO in the entrepreneurial oriented case is definitely attached to his owner and deals with him face to face. "It was never a problem to discuss mistakes or wrong decisions with him and we attempted together to learn from the situation and find better solutions," pointed out the CEO. The owner has a high appreciation and empathy for people and a social attitude that is supportive of the creativity of employees (Mumford, Scott, Gaddis and Strange, 2002). The owner-CEO attachment in the entrepreneurial oriented enterprise is quite strong, but with increasing growth the direct attachment to employees gets more and more difficult to retain without losing the interested and fair conduct with regard to the employees, which is highly appreciated. "I realise there is a distancing between myself and my CEO with increasing growth of the enterprise," argued the owner; he expresses his discontent in this point and reveals that the enterprise progress and the support of the CEO and the employees is his highest value. This supportive mindset and conduct within the owner-CEO interrelationship could have impact on the innovation capability (Van de Ven, 1986; Ko and Butler, 2007). This is positive in the case where the owner and the CEO are able to work actively against the alienation to the basis, negative if the alienation gets solid and occurs more significantly. It seems to be quite difficult for the owner to support the CEO in a continuous growing enterprise.

By comparison, the analysis indicated that the managerial oriented owner's attachment pattern to the CEO is perceived to be more marginal than sincere and honest. The CEO pointed out that the interests and appreciation of the owner for him do not really exist and that he has less empathy and intuition. “Data and figures dominate his thinking and acting” (advisor), which has potential to influence the innovation capability (Mumford, Scott, Gaddis and Strange, 2002). The owner is restricted by his number-crunching dominated activities. Communication between the CEO and the owner is mainly dominated by business-related items (Monge, Cozzens and Contractor, 1992; Amabile, 1996), with the consequence of less support. The owner’s conduct is less supportive over time and less appreciative, and points to individual interests and less interest in the CEO´s support.

The owners’ support diverges in the three studied cases from “we the enterprise” to “I and my investors” to “our family”, and expresses clearly the owner´s support (Davis, Schoorman and Donaldson, 1997; Blair and Stout, 1999; 2001; Johannisson and Huse, 2000; Gabrielsson, Huse, Minichilli, 2007; Van Ees, Gabrielsson and Huse, 2009). Hence, these types of support conduct demonstrate different effects on the operational process. The innovation capability is likely to be impacted positively if the CEO does have sufficient support from the owner, who takes care of the individual needs of the CEO, is empathic, and stands behind the decisions of the CEO.

5.3 Conclusion

Four interesting assumptions of this chapter can be drawn by comparing the results of the analysis of the sociological and psychological interrelationship influences: **First**, it reveals that corporate structure needs to go beyond organisational necessities to provide arenas for constructive debate where individuals bringing their ideas and thoughts open doors for organisational innovations by different communication patterns. **Second**, the acquired corporate structure and the owner-CEO cooperation needs in its modus operandi a transmission to corporate governance in order to improve the innovation capability. A target-oriented leadership by the owner-CEO dyad and a power-granting behaviour supports the transmission of pro-innovative behaviour, which if implemented at the top level will infiltrate the organisation. **Third**, in the support conduct of the owner, creative behaviour and innovative adventures are essentially risky and need a supportive character from the owner, who must accept uncertainty and miscarriage of endeavours without burdening the interrelationship and the CEO´s stimulus, hence affecting the potential to influence the innovation capability. Openness to action by the CEO needs protection from the owner and a resilient interrelationship, and reveals the need of emotional intelligence. If the owner is protective towards the CEO it bears likely positive potential for the innovation capability. **Fourth**, strong operational interference of the owner could divert and weaken the responsible CEO from market needs. The danger of a bilateral adaption of behaviours and similar bias face to face could lead to a blindness to necessary changes and asking for continuous and recurring action changes within the owner-CEO interrelationship.

This analysis suggests that studies of innovation capability need to consider emotions, thoughts, perceptions, actions, and conduct expressed in social and psychological interrelationship influences. Bold acts, courage, and support underpin a successful interrelationship that enhances the organisation’s innovation capability, paired with individual modesty and moderation and complementary traits of the owner and CEO. This comes likely together in proactive action and proactive communication within the owner-CEO interrelationships. However, it is important that we do not examine social and psychological factors in a bubble without considering the context within which they play out. The following chapter examines the findings of the analysis of situational interrelationship influences.

Chapter 6

6 Situational Interrelationship Influences

The analysis exposed indirect, exogenous factors that influence the owner-CEO interrelationship and thus have potential to influence the innovation capability of the enterprise. These are titled situational interrelationship influences and are summarised in Table 6.

Table 6: Situational Interrelationship Influences

Situational interrelationship influences	**Case A** **Entrepreneurial oriented ownership structure**	**Case B** **Manageraial oriented ownership structure**	**Case C** **Paternalistic oriented ownership structure**
Strategic Philosophy	Business development by proactive technological innovation	Profit enhancement by active continous improvement	Conservation of status quo by principle of hope
Liquid Assets	Application of cash to improve knowledge	Cost cutting to increase profit	Activities limited on the basis of low margins
Market Orientation	Innovation as door opener into new markets	Creativity follows market demand	Mutations succeed customer request
Innovation Ambition	Proactive appliance to capture market segment leadership	Active leverage to satisfy market needs and enhance enterprise value	Imperative to meet customer expectations and ensure continuity

A summary of the primary differences between the three ideologies is shown in Table 6and will be discussed within the next section. Four different, associated situational interrelationship influences emerged from the data: strategic philosophy, liquid assets, market orientation, and innovation ambition.

6.1 Strategic Philosophy

The strategic philosophy of the owner and CEO will be reflected in the operational strategy in medium- and long-term perspectives and is fundamental to the long-term vision of the enterprise (Mintzberg, Ahlstrand and Lampel, 2005). The analysis showed that the strategic philosophy diverges within the three observed cases. In the paternalistic oriented case the gap between reality and aspiration dominates the activity and the true strategic interests are revealed through the principle of hope. The conservation of the status quo dominates the profit enhancement by active continuous improvement in the strategic philosophy. The strategy in the managerial oriented case is dominated by growth and profit goals. Innovation oriented targets are less described, but are indirectly required in order to reach the main targets: profit and growth. The entrepreneurial oriented owner´s strategy is conducted through significant business development by proactive technological innovation, and reveals his clear goal. Strategy should include a set of goals toward innovation in order to foster the innovation capability (Amabile and Gryskiewics, 1987; Dodgson, Gann and Salter, 2008; Emsley, Nevicky and Harrison, 2006), and should come primarily from the highest level of top management (Amabile, 1996).

The entrepreneurial oriented owner is fascinated in producing novel and useful ideas by creative destruction (Schumpeter, 1934; 1942) in the area of technological surfaces. In order to develop new business by technological innovation, the main focus of the strategy and also the action of the owner and his CEO are justified thus: “We search for the best solutions for our customers and the interest to generate new products via their own platform” pointed out the CEO and the owner independently from each other. “We follow innovative processes continuously – from product design to market launch and beyond,” is the official description on the web page. “We have defined an innovation process as the basis of our strategy and the strategy by itself is the guiding process for the main process” (owner). More than 80% of all employees are aware and know their role in the strategy (former survey) driven by the owner-CEO dyad. Hence it is not surprising that the success criterion is defined by technological advantages. “We have the technology in the foreground and not commercial figures” (owner). Renewal is just the motivational element of the owner and his CEO (Maslow, 1970; Manz, 1992) and both are anxious to transmit this beyond the owner-CEO interrelationship to the whole organisation. This is clearly and unambiguously described in the strategy with a long-term, clearly scheduled strategic horizon and comprehensible actions that foster the innovation capability of the enterprise (Amabile, 1996) and promote the CEO and top management as being among the key factors (Franke, 2014) to promote the innovation capability.

The managerial oriented owner’s strategic philosophy emerged as more unstructured and influenced by the here and now. The focus is rather short- and middle-term aligned. “Our strategic definition is structured top down and is part of our budget meeting. The owner likes the controllable “to do´s” out of the strategy but is not pushing, and ignores the possibility that his behaviour could be counterproductive to the motivation of the CEO. Innovation targets are not in the foreground (CEO), but rather profit enhancement. Task motivation is dominated by continuous improvements and the optimisation of existing processes or cost structures rather than the development of new technologies. Cash and profit figures are preferred success benchmarks for the owner, which could be counter-productive in respect to innovation capability (Isenhardt, Hees and Trantow, 2011; Trantow, Hees, and Jeschke, 2012). Economic and financial interests are significant barriers in MSEs (Acs and Audretsch, 1990). The strategy is used to control the CEO if he is able to reach the agreed “to do’s”, which is symbolic for this owner-CEO interrelationship.

The paternalistic oriented case has had to fight hard for economic success in recent years (enterprise balance sheet). “Strategic interests are manifoldly described” pointed out the CEO, supplementing that between claim and reality stands a huge gap. “We have innovation targets in our strategy” explained the CEO. “We would like to be the most innovative enterprise in the market with the best educated employees who have the skills to develop new lucrative business and markets," she said, but deplored the reality and brought her disappointment to the surface. "We indulge in wishful thinking, a principle of hope," she added. A very slow and hesitant approach to new markets is perceivable but paired with less endeavour to realise significant progress. The conservation of the status quo stands in the foreground, maybe in unspoken knowledge of the reality that the owner is not able to realise other current strategic goals operatively. The strategic definition is ancient, superficial, and more or less only a piece of paper that the interrelationship suffers under.

Individual capabilities and wishes diverge sometimes under different circumstances and hinder the realisation of strategic intentions in general (Fish, 2016; Csikszentmihalyi, 1994). Particular innovation targets have to be clearly defined by the CEO and the owner in the strategy to underpin the agreed and purposed target, which will stimulate them to behave more entrepreneurially, and should be used in structuring, directing, evaluating, and rewarding creative work (Mumford and Licuanan, 2004), and hence the innovation capability.

An innovation-related strategy was defined in the entrepreneurial and paternalistic oriented case strategy and vision, but only the entrepreneurial oriented dyad stands collectively behind the vision and is willing to transform the strategy into good currency (Mumford, Scott, Gaddis and Strange, 2002; Mumford and Licuanan, 2004) and sustainably foster the innovation capability. The innovation capability is likely to be affected positively if the owner-CEO interrelationship has sufficient similar biases and supports the organisation to the effect that subordinates feel understood and supported by the management (Stevenson and Lundström, 2001), which stimulates others to innovate.

6.2 Liquid Assets

Cash and cash equivalents are in general limited, but are notably differently distributed in the three examined cases. While the entrepreneurial oriented case has cash applications to improve the existing knowledge and, hence, the innovation capability, the managerial oriented case is bounded by cost-cutting activities in order to improve annual pay-out. Another limit occurs in the paternalistic oriented case, where activities in the direction of an innovation orientation are limited by currently low margins and hence a gap of cash.

Cash and sufficient liquidity is an obvious requirement - among others - to help generate innovation in an enterprise (Brown, Fazzari and Petersen, 2009; Audretsch, 1990; Guijarro, Garcia and Van Auken, 2009). This is the case in the entrepreneurial oriented enterprise. “Our owner has realised 100% that we need sufficient cash to obtain our innovation power to transform the enterprise into the next decade.” The enterprise is unambiguously knowledge oriented, which is clearly communicated internally. The aspiration is to focus on internal and external partnerships (open innovation) based on mutual trust to increase the innovation capability. The owner and also the CEO know that the goal “to change the world” cannot be done in a short time and needs cash.

The analysis indicated that the managerial oriented case, in accordance with its dominating, profit oriented knowledge dyad, is more short-term focused. Long-term experience and traditions have revealed a lot of technology products in the past. This trend should be advanced by the acquisition of further market participants and by the development of new products. The strategy is clearly described but the realisation is not characterised by serious endeavour. Profit orientation is a barrier in respect to the innovation intentions. “My liquidity reaches its limits,” pointed out the CEO. This is a significantly unfavourable barrier to fostering the innovation capability in the enterprise (Jeschke, Isenhard, Hees and Trantow, 2011). The integrated “innovation force” in the standard design department expresses the true intention and possibilities of the innovation willingness of the owner and CEO.

The CEO in the paternalistic oriented case endures the same situation, with the significant difference that the enterprise is currently not earning the same profit as in recent years and has currently less liquidity for renewal. “The low margins limit us from spending that much money on new technology and innovation activities” pointed out the CEO. “Cost orientation stands in the centre”. The owner is driven by pending insolvency. This current situation dominates the owner-CEO interrelationship and influences the innovation behaviour. The situation forces the CEO to act short term, but the general thinking of the owner is infinite, which in the current situation is less conducive to innovation (Jeschke, Isenhard, Hees and Trantow, 2011). Necessary liquid assets are available but the owner eschews the risk to invest and thus inhibits the innovation capability.

The enterprise innovation orientation discovers - in all three cases - different liquid assets barriers, and this sometimes forces the owner and CEO into a dilemma when trying to push the innovation orientation significantly forward (Thielemann, 2009). In the paternalistic oriented case, the current difficult financial situation causes the CEO to struggle; in the managerial oriented case the owner makes untiring efforts to drag cash out of the enterprise as a paramount duty. On the other hand, the fast growth of the entrepreneurial oriented enterprise constitutes a huge barrier to generate sufficient cash to finance all the preferable technological progress and the strategic vision. Cash assets, as a major intra company innovation orientation key figure, are undoubtedly espoused by the enterprise in respect to the described vision, the provision of funds, and the sustainable actions of the management. This key dynamic figure creates tensions and dynamics between the owner and the CEO in respect of different targets and has potential to influence the innovation capability, presumably. Other external influences come from the market.

6.3 Market Orientation

The market orientation of the owner and the CEO could have potential to influence the innovation capability within their dyad and the market itself is able to have an exogenous influence too. The entrepreneurial oriented case understands its innovation activity as a proactive door opener into new markets, whilst the managerial oriented case understands innovation as an answer to market and customer demands, and the paternalistic oriented case innovates only on customer request, and this is mostly limited to mutations of existing products.

Currently, the risk orientation in the paternalistic oriented case reveals as marginal. Market orientation is restrictive. The owner's passion for new markets and customers is significantly reduced. The demanded flexibilisation pressure is not available on the owner's side and hinders the organisation from innovating. The traditional core market has got more and more weak in the last year. The owner is not willing to support a more international business with adequate sales power, where the market is growing. The risk to invest money into a global sales team is too uncertain and risky. Instead of forcing a way into this emerging market, the owner would rather sugar-coat the situation and struggle with the price politics of the competitors (advisor). The owner reveals as the bottleneck. "A growth strategy is not discussed. The dominant opinion that the market segment is quite traditional paralyses the whole enterprise in moving ahead with a new technology or breakthrough discoveries. Since 2006 no innovations have been published. The enterprise has been losing its particular product leadership in the niche market over the years. Marketing strategies of the marketing-educated and experienced CEO go unheard. The interrelationship suffers under the opposed market orientation, likely with a negative impact to the innovation capability."

The managerial oriented case focuses more on the active optimisation of existing products and applications and attempts by this way to hold the current market leadership in the lorry segment. The CEO pointed out this statement and added that the enterprise has to do more in a segment where everybody knows that this market is finite. “An e-car does not need a petrol cap. In view of his age the owner knows that the end of the market will come when he is retired or when the strategic investment is ended.” (CEO) He indirectly limits the market orientation to its present core competence and cuts the CEO´s interests, which are apparent in different attitudes toward risk (Eisenhardt, 1988). Internationalisation and growth via new markets is driven by the owner. He pushes activities in the global automotive manufacturing markets and is also willing to spend limited money if it is generated out of the cash flow. The willingness to grow is tempered by a limited risk orientation, founded in the dominant profitability orientation, and reveals competing interests between the owner and the CEO (Davis, Schoorman and Donaldson, 1997). “We did different acquisitions in the recent past and also spent money on two big companies to increase our value and protect our global market leader position, but we are less willing to acquire new development employees to foster our product portfolio,” pointed out the CEO. The owner and his investors have been quite economically successful in recent decades and they are sure to be on the right track, hence it tends to be necessary for the owner and the CEO to be open to market changes.

The analysis showed that the owner and the CEO in the entrepreneurial oriented case think entrepreneurially and are aware of using opportunities and managing risks and are willing to take risks into new markets (owner). They continuously look for better ways to satisfy their customers, based on improved quality, durability, service and price, which come to fruition through innovation with advanced technologies and organisational strategies (Heyne, Boettke and Prychitko, 2013). Two enterprises were acquired in recent years. Additional acquisitions are planned to develop the market leadership. The enterprise is innovation and growth driven. “We are scanning and scouting the market and observing and deciding which chances we could realise to improve and innovate existing products” (CEO). “Our permanent process of continued development gives our customer a crucial competitive advantage” (strategy extract). The enterprise is totally open to new products and market segments and likes to protect, with this strategic orientation, the current market leadership in Europe, and wants to extend it to a global market leadership. “We are quite organised and act with an aggressive rigor, and are market and technology driven to reach our target. Ultimately the customer decides our innovations” (owner), which justifies the aggressive approach to capture new markets and customers through innovations.

The entrepreneurial oriented owner appeared to be proactive to new markets, technologies, products, and risks, and demonstrates his market orientation by being willing to spend resources on these challenges. The managerial oriented case is limited in its capacity to innovate through new technologies and markets and the interests to have R&D costs are continuously low, but it is open to increasing the value of the enterprise by an active market expansion. The paternalistic oriented case is currently in a dilemma, in that the reduced profit and risk averseness of the owner does not allow the enterprise to focus on growth activities and new markets. The risk awareness that the owner is willing to assume (Davis, Schoorman and Donaldson, 1997), in comparison with his CEO, makes the difference and the interrelationship vulnerable and demonstrates the weak innovation orientation towards new markets.

6.4 Innovation Ambition

Despite all three examined cases being innovation ambitious in theory and verbal statements, the reality in execution is different. Whilst the entrepreneurial oriented case uses innovation proactively, as an appliance to capture market segment and expand the technology leadership position by production of novel and useful ideas (Mumford and Gustafson, 1988; Van de Ven, 1986), the managerial oriented owner uses innovations as active leverage to satisfy market needs to enhance the enterprise value. The paternalistic oriented case´s reactive attitude is driven by customers to meet their expectations and ensure that with this behaviour the enterprise's continuity as a family firm endures (Johannisson and Huse, 2000).

In the paternalistic oriented case the innovation ambition diverges from the vision to the execution and disembogues into a truism, which ignores the reality. Operative innovation-oriented behaviour or action is not realised and ends in lip service. "The owner believes that innovations are not necessary," pointed out the CEO and added: "Actually, we do not have open space for ourselves and the employees and are not able to be creative and innovative." The signals that the owner sends are prohibitive and counter-productive in respect to the innovation capability and stress the interrelationship with his CEO. The analysis indicated that currently the innovation source is the CEO but she is not really an innovation ambitious driver, and has not the power, not the autonomy, and finally not the support to push innovation activities. Obedience is counter-productive in the interrelationship (Covin and Lumpkin, 2011). "We are rather passive than active in respect to foster the innovation capability," pointed out the CEO, disappointingly.

The managerial oriented case, which is more actively oriented, primarily as a result of customer and market demands in respect to innovation ambitions, serves as a vehicle for success and a competitive edge. Innovations, as drivers in the market, are recognised and welcome but if possible without any cost. "I can do what I like to do if we do not damage the scope of the budget," pointed out the CEO, which explains his relative operational freedom but also his limited resources and monetary scope to innovate. An innovation priority in view to the market is not fixed. "The CEO is seen as a proxy of the owner, who can only act with less autonomy, who has to get an approval for each bagatelle by the owner" pointed out the advisor. The CEO perceives his owner as someone who is "slow to implement innovation activities". "My owner's innovation orientation is not keen to bring significant product innovation to the market and support the necessary market growth which I am interested in." pointed out the CEO. The enterprise is in a mainly sales-related orientation (Covin and Lumpkin, 2011), not least because of the preference and core competence of the CEO to capture proactive new markets, and is partly innovative in the area of new products.

The analysis indicates that the innovation orientation (Covin and Lumpkin, 2011) is more aggressive in respect to competitors and to the market, especially extramural, in the entrepreneurial oriented case. It is clearly technology driven and proactive in capturing new markets, new customers and in emerging new products. The innovation orientation is significant. "The core of the management team is operating entrepreneurially coherently," pointed out the owner. The owner is at once the innovation source and driver in the enterprise, together with the CEO. "We push innovation activities in the enterprise as early as possible," pointed out the CEO and "We support employees to realise innovations and support their creativity". The owner does not forget to stimulate the CEO to continue to behave more and more innovatively and foster innovation ambitions in old established markets and in the same way in new markets, and this is seen as a team building effort (Mumford, Scott, Gaddis and Strange, 2002).

Innovation ambition needs a long wind to end in a successful story. An innovation-promoting owner-CEO interrelationship is one of the key factors, besides innovation climate, innovation openness, and an innovation-committed organisation (Franke, 2014). This symbolises a situational effect, according to the innovation capability influenced by the owner-CEO interrelationship. The togetherness within their owner-CEO interrelationship as innovation drivers in the entrepreneurial oriented case underpins the sustainable theory of Amabile (1996), who defined the social environment of the dyad as an influential factor of the level and frequency of innovation ambition.

The entrepreneurial oriented owner and his CEO have the ambitions to innovate with new technologies deeply in mind, and symbolise this by their characteristic and individual traits (Mumford, Scott, Gaddis and Strange, 2002), by their communication and action, and further symbolise this by their sustainable physical and mental energy (Csikszentmihalyi, 1994; Sternberg and Kaufman, 2018). The collective equality of the CEO and owner of similar bias and the individual distinction by supplementary knowledge (Stevenson and Lundström, 2001) creates an innovation-promoting character through the interrelationship and has potential to foster the innovation capability of the entire enterprise.

6.5 Conclusion

This analysis shows that the organisational innovation capability is shaped by the context within which the owner-CEO interrelationship occurs. Three interesting conclusions can be drawn from the results analysis of the situational interrelationship influences:

First, the analysis of the three examined cases indicated that an innovation-related market strategy is crucial and positively affects the innovation capability if the owner-CEO interrelationship has a sufficiently similar bias, and both actors transform actions and endow identity communication into the organisation. The articulated similar biases and goals of the top management in respect to the innovation ambition likely need a more entrepreneurial oriented conduct of the owner-CEO interrelationship in order to shape the innovation capability positively. Sustainable action towards innovation seems mandatory and needs comprehensive owner-CEO communication and an active market debate. **Second**, the innovation related strategic philosophy likely needs sufficient cash assets to be realised. Specifically, the opportunity to act as CEO depends on available cash in technology MSEs. If the CEO should realise a vision but not get the sufficient cash liquid assets, dynamic tensions and social conflicts within the owner-CEO interrelationship are pre-programmed and unavoidable and have potential to constrain the innovation capability. Strong individual short-term financial interests of the owner could stand in contradiction to innovation capability needs. To increase the innovation capability is an investment decision and hence needs a proactive action endorsement from the owner, innovation addressed goals, and sufficient liquid assets to realise the targets. **Third**, the owner-CEO dyad requests perseverance to realise the initiated innovative actions that find expression in a long-term oriented interrelationship with an innovation responsible and powerful CEO who is market interested and oriented with a significant ambition to pursue innovations. The collective, prompting, innovative character of the owner and the CEO within their dyad has a potential to stimulate or constrain the innovation capability. Likely, the owners' technological competences and a taken-for-granted support for exogenous challenges stabilise the owner-CEO interrelationship and erect the focus to the situational facts from social and psychological influences. This responsibility means clear assignments and scope of actions, which is revealed in a constructive interrelationship culture with face-to-face actors, and which is likely given in a more entrepreneurial ideology.

The above-mentioned exogenous factors have a direct, rational, antecedent influence on the owner-CEO interrelationship and hence on the innovation capability of the enterprise. The social and psychological influence factors (Chapter 5) are revealed as moderators and manifest the coherence of the different analysed influences (Figure 2) to the enterprise innovation capability. The analysis indicates that, social, psychological, and situational influences have a potential to stimulate or constrain the innovation capability and substantiate an impact of emotional facts beyond rational facts in corporate governance. More rational theories like agency, stewardship, and team production theory have their boundaries when they focus primarily on rational influences. Nevertheless, the three theories also have their validity beyond the theoretical consideration in pragmatical applications.

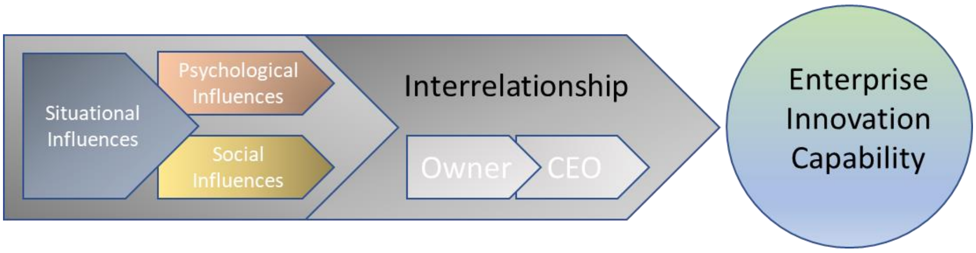

Figure 2: Interrelationship Influence Process

Control, trust, and sharing have complementary requirements in a pragmatical view in the dynamic daily business. The controlling owner will likely reduce the volume of control when he realises that the CEO is acting in his/her interests. When the CEO is acting in the interests of the owner the owner likely accumulates more and more trust of the CEO and control will reduce over time. If that happens, the owner realises that the right person for the CEO's position is on board and then he/she begins to think about how it is possible to settle him/her in the enterprise and think likely about sharing of interests and success beyond the contractual agreed salary. Coincidentally, the CEO might realise that trust and respect from the owner support the CEO's activities. Misconduct and disappointments will likely have a negative influence on the owner-CEO interrelationship on an emotional and rational basis, and will turn back the gained mutual expectations into a new loop and control will increase. If this process is going on, as analysed in the entrepreneurial oriented case, a complementary governance structure of agency – stewardship – and team production theory is merged into one structure and could be able to use all the positive effects of the three theories to form one dynamic corporate governance theory. The effects of how that could be possible will be discussed in detail in the next chapter.

Chapter 7

7 Discussions

This chapter will build on the in-depth understanding of the three examined cases and will develop an interrelationship influence model of the innovation capability in respect to the research question: How does the owner-CEO interrelationship potentially influence the innovation capability of medium-sized technology enterprises? The chapter begins in **Section One** with a brief review of the research questions; **Section Two** summarises and discusses the findings to develop an interrelationship influence model and its potential impact on the innovation capability in medium-sized technology enterprises, based on interrelationship influences in Chapters 5 and 6. This section is separated into two sub-sections: firstly, social interrelationship influences and secondly, situational interrelationship influences. Finally**, Section Three** concludes this chapter.

7.1 Research Question

This thesis has addressed the research question: “How does the owner-CEO interrelationship potentially influence the innovation capability of medium-sized technology enterprises? ” The findings show that the reality is more sophisticated than merely providing advice about new top management organisational structures and operational practice, or a strategic decision on the part of the owner-CEO dyad. A number of social (Section 5.1), psychological (Section 5.2), and situational influences (Chapter 6) have been analysed that disembogue in six influence factors that combine to influence the interrelationship in an interrelationship influence model. This thesis contributes to the knowledge and study of organisational governance by illuminating the owner-CEO interrelationship in a specific social context and it contributes to the understanding of innovation capability by conceptualising the influences of that interrelationship, drilling down into different ideologies and going beyond existing knowledge.

7.2 Summary and Discussions

Two major findings were analysed, based on social (Section 5.1), psychological (Section 5.2) and situational influences (Chapter 6), which are grounded on corporate governance theories and are revealed out of the owner-CEO interrelationship and have their focus on emotional and rational aspects, rather than on sheer rational effects, like predominantly in the current theories. The analysis indicated that the interplay between owner and CEO within their interrelationship has the potential to stimulate or constrain the innovation capability of the enterprise and supposes a more human view on corporate governance than a purely rational one, based on the analysis on the owner's and CEO's innovation input and their inter-communication and collaboration behaviour, information flow, strategic orientation and leadership to innovation, culture and structure of corporate governance (Adams, Bessant and Phelps, 2006). **First**, social[16]influences within the interrelationship are dominated by the owner and the CEO in three different action windows (Figure 3, Interrelationship Influence Model). The innovation capability of the firm is likely to increase if the owner bears the conduct of action within the interrelationship in respect of innovation ambitions and the support for the acting person, and both actors carry the responsibility for the realisation of the strategic goals and have to communicate face to face. The innovation capability is likely to be impacted negatively if the CEO does not have sufficient autonomy inside the dyad or power within the organisation to lead the operations. This contribution is discussed in Section 7.2.1. **Second**, unsurprisingly, the entrepreneurial oriented ownership structure has the highest potential to stimulate the innovation capability. Beyond that indicates situational influences that a team production affine corporate governance conduct

[16]Social influences also embedded the individual psychological influences that are intertwined within the owner-CEO interrelationship.

within the owner-CEO interrelationship has the potential to stimulate the innovation capability of the enterprise, rather than a stewardship or agency conduct. This contribution will be discussed in Section 7.2.2.

7.2.1 Social Interrelationship Influences

The social interrelationship influences capture the togetherness of the owner-CEO dyad and provide corporate governance procedures to potentially improve the innovation capability of medium-sized technology enterprises. Relational-pre-experiences of the individual lead to a behaviour of the two protagonists and follow a determined pattern, influenced further by relational dynamics whilst the owner and the CEO take their roles within the interrelationship. Thereby, the degree of horizontal or vertical hierarchy within the owner-CEO dyad impacts on the quality of the corporate governance, as revealed in the three real business settings. Likely, a trustful and authentic togetherness promotes the owner-CEO interrelationship and supports the willingness to solve problems generated out of relational dynamics. Business- and relational-dynamics are uncertainties and move the dyad into unclear terrain; they guide the owner and the CEO continuously in a more and more dynamic world and are able to influence rational decisions. The quality of the owner-CEO interrelationship is dependent on the dispute-willingness of the two protagonists, among others, and hence is an investment into the interrelationship and in the same way a fight against their own comfort. The identifying of the interrelationship influence factors is presented in Table 7.

The social influences are revealed out of the psychological and social interrelationship influences (Chapter 5 and 6) from the observed business cases. Table 7 describes the social interrelationship influences that have the potential to shape by the two main actors the economic situation in general and in particular the innovation capability. Hence, situational dynamics and social dynamics have the potential to influence the innovation capability in the enterprise and are presented in the interrelationship influence model in Figure 2.

Table 7: Social Interrelationship Influence Factors

Influence Factor	Factor Description
Action	Proactive vision by the owner to promote and require individual's (CEO) creativity and organisational innovation capability
Communication	Varying viewpoints, dissent, cooperative experiment and the willingness for consensus face to face under the conduct of constructive debate
Autonomy	CEO needs autonomy to act operationally independent and self-responsibly inside and outside the enterprise
Power	Power of execution lies indisputably in the hands of the CEO and is granted absolute authority within the enterprise
Responsibility	Active responsibility, respect and trust to reach strategic goals and operational challenges must be a passion within the owner-CEO interrelationship
Support	Owner´s support, appreciation and care for the CEO and creative individuals is crucial in the fact that uncertain intentions fail

In respect to the social influence factors in Table 7, this reveals in the analysis of the field study a dynamic coherence. The influence factors are not static but more a dynamic process, which influence the owner-CEO dyad continuously in a more recurring improvement loop or at the opposite in a worsening loop. The dyad is focused on their social and functional structure to generate performance, creativity, and productivity in an economic environment that is usually associated with effective and poor decisions and interrelationship conflicts (Simons and Peterson, 2000). Figure 2 illustrates how social dynamics can shape the economic situation within the owner-CEO interrelationship in German MSEs. The interrelationship quality is likely to be increased if the owner and the CEO have a proactive iterative process, which is described in the relational model of the owner-CEO dyad (Figure 3).

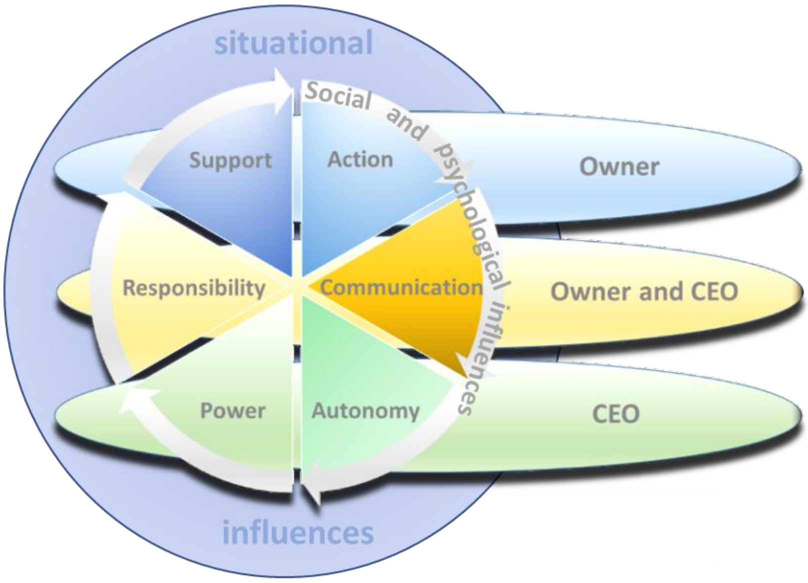

Figure 3: Interrelationship Influences Model

The next section is divided into six sub-sections and reflects the social interrelationship influences (Table 7) within the corporate governance on the innovation capability beyond static environment and rational behaviour, and explains in detail the interrelationship influence model and how relational dynamics can shape the situation; it goes beyond previous studies like agency theory (Jensen and Meckling, 1976), stewardship theory (Schoorman, Mayer and Davis, 2007), and team production theory (Blair and Stout, 1999),which ignored and not explain that interrelationship influences have potential to influence the owner-CEO dyad and have primarily individual and situational mechanisms examined.

I start by explaining the interrelationship influences by action, followed by communication, autonomy, power, responsibility, and support. The used colour in Table 7and Figure 3stands in an explicit coherence: blue for the owner's main activities, green for the activities of the CEO, and yellow for the shared activities of the owner and the CEO.

7.2.1.1 Action

An interrelationship influence model (Figure 2), as a continuous recurring approach over time, is required first for proactive corporate governance action derived out of the perception of the necessity to innovate, conditioned by enlargement of the enterprise and behaviour routine. Perception requires competent thinking, contemplation (Arendt, 1958), acting, feeling, and interexchange, and is the source of action and needs. Hence, the knowledge to understand the current situation and to define a new situation and assume the courage to force the creative destruction (Schumpeter, 1934) of an existing equilibrium and be willing to bear uncertainty is needed (Knights, 1921). These seem to be basic in theory, but in practice they are sometimes just words, as seen in the paternalistic case, to foster positive effects to the innovation capability of MSEs.

All three cases define and dominate the owner's strategic ends, influenced in different characteristics by the CEO, even if the ends are profit, old age security, or innovation. No CEO is able to define his/her own strategic direction, he/she is more responsible to execute the strategy with different autonomy. Hence, it lies in the responsibility of the owner to decide (Kimberley, 1981; Siegel and Kaemmerer, 1978) on a sustainable action. This strategic action-intention, which has its origin from the owner or from the CEO in the German dual system/two tier system (Jungmann, 2006), lies mostly in German MSEs in the hands of the owner, proactive, active, or passive, as seen in the inquired cases. A passive action[17] means a confirmation by the owner to strategic action suggestions by the CEO and depicts the reality in all three observed cases. Relational dynamics in this process are influenced by mutual interdependences, emotional and rational, and the owner-CEO interrelationship is seen as: emotional familistic in the paternalistic oriented case, rational impersonal

[17] Proactive action means the owner defines anticipatory strategic actions. Active is here defined as an active owner involvement, together with the CEO, in the strategy development.

in the managerial oriented case, and rational and also emotional in the entrepreneurial oriented case. It reveals that action needs a pragmatic trail of communication between owner and CEO and it requests a common and equal understanding of the situation and reality and the target to reach. The entrepreneurial case shows that the owner's interests, founded in his initial action, desire further development between owner and CEO face to face in order to generate a common convergence. Its result - and hence the derived target - requests clear definition in the business model and in the enterprise vision and has to be a fixed part of the strategy (Emsley, Nevicky and Harrison, 2006; Gobble 2012), preferentially innovation-related, as in the entrepreneurial oriented enterprise, in order to have a positive influence on the innovation capability. Initial action in a proactive vision needs a long wind and requires individual creativity to enhance the innovation capability. It needs a dynamic retrospection by the main actors, as practised in the entrepreneurial case. The paternalistic oriented case signalled a clear orientation toward innovation activities, but ultimately ended in lip service, which created adverse consequences and incredibility. If action is only profit-related and disembogues in a virtual strategy, like in the managerial oriented case (target >12% profit), the influence on innovation capability is presumably less positive. Action wishes a clear appreciation within the dyad to harmonise it. Otherwise, different appreciation within the dyad could lead unambiguously into stress between the owner and the CEO.

Similar influences can have catchwords because it is en vogue to have ideas written on your enterprise webpage, but not as an action platform in your mind. Clear and balanced conduct and communication potentially lead to a common approach (Monge, Cozzens and Contractor, 1992; Amabile, 1996), which gives the CEO the autonomy to act independently in the interests of the owner with informative communication in both directions between the CEO and the owner.

7.2.1.2 Communication

Communication requests easy-to-understand words in enterprises - no euphemisms like positive practices in the entrepreneurial oriented case, and symbolic negative, applied in the managerial case. The owner and the CEO within their interrelationship then know the current status of imminent actions without having to ask. An information asymmetry between the two actors (Eisenhardt, 1988) seems to be counterproductive. Open communication, as the basis of a conduct of constructive debate, face to face, is natural and is likely the basis of cooperation within the interrelationship. It supports a common set of speech acts to define the types of messages, a common ontology by which the actors can describe their capabilities to each other, and a common set of prescriptive conversation policies to define acceptable exchanges of messages (Nodine and Unruh, 1997). With open communication, the possibility of creativity within the dyad increases. Hannah Arendt (1958) is convinced that speech alone is already creativity, which is confirmed by practical doing in the entrepreneurial oriented case. Communication is the foundation to define what I like and what I do not like (Monge, Cozzens and Contractor, 1992; Amabile, 1996; Tasheva and Hillman, 2018) and helps to move from initial dissent to finally find a common consent. Communication in a pragmatic sense really means to do it without any fear of a rebuke from the owner. Communication develops a common reality (James, 1994) and enhances mutual trust, which moderates the relationship between task conflict and interrelationship conflict (Simons and Peterson, 2000) and supports the realisation of common dynamic ends. Collective practical experiences reveal their effect by verification in the action result. This reduces mutual expectations and in the same way emotions, and comes to the fore by the utility of all participants. The success defines what is true and what is not, and this reality requests proactive substitutes from the CEO in the direction of the owner. A good communication within the dyad is likely to be impacted positively if the message is positive or negative. This substitute supports trust in the owner-CEO interrelationship by creation of realities that are stored and suitable. Hence, the whole process of communication seems as an investigation into the owner-CEO interrelationship, assists the complications of dyad dynamics and supports more than the exterior pretence.

Creativity is based in dissent (Amabile, 1996; Csikszentmihalyi, 1994; Sternberg and Kaufman, 2018), and varying viewpoints of the world from the willingness of the actors disembogue in a consensus until the pragmatic reality (Rorty, 1979, James 1994), which shows the necessary corrections through which an interrelationship has to withstand the strain. As demonstrated in the entrepreneurial oriented case, an innovation-oriented communication, face to face between the owner and the CEO, which is expressed in a horizontal hierarchy and a team approach, is possible and appears to be in the same way essential in other organisational levels of the enterprise. The owner in the paternalistic oriented case tends to communicate in a one-way direction, whilst the managerial oriented owner generates an atmosphere of a face-to-face communication, which is not perceived in the same way by the CEO. In both cases, it is clear that this behaviour is potentially not innovation friendly. Hence, the verification of the interrelationship quality reveals in the performance, in the content of this study, in the capability to innovate. The quality of communication (Olson, 1987; Gobble, 2012) between owner and CEO defines what kind of sphere of influence a CEO has, and in the same way whether he/she has autonomy or not.

7.2.1.3 Autonomy

Autonomy is likely important to have solid self-awareness (Duval and Wicklund, 1973) and self-confidence and induce trust from the owner, as positively confirmed in the entrepreneurial oriented case, which supports the team approach (Dierdorff, Fischer and Rubin, 2018). In dynamic and uncertain global and technological environments the CEO supports autonomy (Cotgrove and Box, 1970; Dansereau, Graen and Haga, 1975; Graen and Scandura, 1987; Johannisson and Huse, 2000; Winkler, 2009; Wang and Rode, 2010, Gobble, 2012, Jian, 2015) in order to become more and more of an effective organisational leader (Rubens, Schoenfeld, Schaffer and Leah, 2018). It reveals in the entrepreneurial case that autonomy increases the affinity, immunity, and the trust within the interrelationship, rather than in the paternalistic oriented case, where the owner demonstrates generically what happens if the CEO has no autonomy. This interrelationship behaviour tends to be negatively related to the innovation capability of the enterprise. The creativity of a CEO desires reduction of the owner's input. If the owner stands in the foreground, the CEO cannot take over power or responsibility in the daily business. An autonomous CEO stands in the foreground in the entrepreneurial oriented case and demonstrates operational independence and his influence on the innovation capability out of a trustful interrelationship with his owner. The opposite is true in the paternalistic oriented case, in which the owner bestows a negative effect because he is not willing to hand over the operational responsibility to the CEO and deprives her of the necessary autonomy and trust. The consent to power is not the same between the owner and the CEO. The above-mentioned dyad dynamics influenced by communication disembogue by verification in the CEO autonomy and are reflected in the quality of trust that is endowed by the owner to the CEO.

If the strategy includes a set of overall project goals towards innovation (Gobble, 2012), as practised in the entrepreneurial oriented case, and the owner allows a high level of procedural autonomy accompanied by a clear planning and feedback process, the CEO is likely able, by a high quality of communication between his work group, to support the work of individuals as well, throughout the entire enterprise (Monge, Cozzens and Contractor, 1992; Amabile, 1996). Where "radius of operation" is not just a catchphrase, it provides the basis for the daily work of the CEO, enabled by the owner's unrestricted trust (Schoorman, Mayer and Davis, 2007; Monge, Cozzens and Contractor, 1992;

Csikszentmihalyi, 1994; Amabile, 1996). If the CEO cannot trust his owner, then the basis of the interrelationship is certainly destroyed. The paternalistic oriented owner practises the opposite and limits the autonomy of the CEO significantly and leads her into a heteronomy. The CEO is strongly dependent on the owner's action. The autonomous opportunities and the operational constraints of the owner in respect to the strategic definitions stand in a dynamic oxymoron. The CEO in the managerial oriented case has this necessary autonomy. He is able to act - operationally - independently and self-responsibly inside and outside the enterprise, with one significant restriction: the autonomous behaviour of the CEO must not reduce the expected profit or jeopardize the liquidity to serve the owner's cash pay-out. Beugelsdijk and Jindra (2018) find that higher decision-making autonomy increases the probability of product innovation. The autonomy of the CEO (Agarwal, Goel and Vashishtha, 2014) is grounded in a mutual thinking and feeling between the CEO, which has its roots in the communication within the owner-CEO interrelationship and finds its verification in the acting of the CEO and hence particularly within the innovation capability.

When the CEO is involved in an innovation process, the amount of decision latitude, influence and autonomy that the owner will allow is revealed as a crucial factor (Dansereau, Graen and Haga, 1975; Graen and Scandura, 1987; Winkler, 2009; Jian, 2015). Autonomy here is characterised by trust (Mayer, Davis and Schoorman, 1995; Möllering, 2005; Schoorman, Mayer and Davis, 2007), mutual liking and respect (Cotgrove and Box, 1970; Winkler, 2009; Wand and Rode, 2010) and disembogues finally in the necessary power for the CEO to execute.

7.2.1.4 Power

Power is likely to be impacted positively if the owner has an autonomous CEO who is able to enforce strategic targets and operative interest in the enterprise. Power is revealed as a key factor in corporate governance (Daily, Dalton and Cannella, 2003) and as a potentially major conflict among the owner and the CEO (Jensen and Warner, 1988) and is able to generate interrelationship conflicts. Power in organisations contents the ability to influence individual and organisational behaviour, change the course of actions, overcome resistance and convince people to do things that they would not do otherwise (Pfeffer, 1992). It reveals as a management tool that generates rational and emotional perceptions in the receiver, as revealed in the three examined cases, and can generate, in practice, many conflicts. Power as an operational imperative of the CEO demands proactive cooperation from the owner, which is cooperation with dependence and requires trust from the owner.

This conflict potential is significant in the paternalistic oriented dyad and rudimentary in the managerial oriented dyad, not least by limited trust in the CEO. The CEO in the paternalistic oriented dyad has not got the power to decide, and hence innovation capability tends to suffer. The owner gives the CEO no credit to decide. She acts in the inquired case as a puppet and in this sense not face to face. That the CEO is desperate in these circumstances is of no interest to the owner and it is also conceivable that this power evaluation within the interrelationship is contra to the innovation capability. Even if the CEO has the power as CEO to decide, the reality demonstrates that the CEO has no ability to influence the owner's behaviour and change the course of actions, and is not able to convince the owner to do things that she would do otherwise. The dyad in this case seems to be an emotional reality, with less ability for rational actions as innovative activities, and demonstrates how relational dynamics potentially shape the interrelationship situation and hence particularly influence the innovation capability. The CEO does not succeed in the paternalistic oriented enterprise and demonstrates her inability to come out on top within the interrelationship with her owner, with all its negative influences on the innovation capability of the enterprise. “How can I please my owner” in the dynamic daily togetherness burdens the feeling of the

CEO and has a higher priority in the paternalistic dyad, rather than the rational performance of the enterprise.

In contradiction to this disequilibrium is the entrepreneurial owner's awareness of the necessity of the CEO´s power. He is able to do what is necessary in the daily operations without any consultation with his owner, and the owner likes this and stands behind the CEO and supports him if necessary. The CEO is the source of power, supported by the owner. The entrepreneurial owner fosters the power of the CEO because he likely knows that without power the CEO's authority is not enough to govern the enterprise and will not earn the required respect from his staff, which is probably necessary to reach the strategic targets. The CEO´s power is revealed in the eyes of the entrepreneurial owner as an instrument of power to reach his own targets, grounded in trust in the CEO. This stroke is perfectly implemented in the entrepreneurial case, is accepted from both sides, depicts the interrelationship behaviour and is potentially verified in the innovation capability of the enterprise. In contradiction to this is the CEO in the managerial dominated case, with less power. In the daily business he is competent to demonstrate his power within the organisation but in the direct contact with his owner he is not equal face to face in respect to the power distribution, which does likely not have that much negative impact on the creative endeavour of the CEO because he is tough enough to differentiate and follow his own interests in the daily business. As long as the success of the enterprise is on target, every action will be ratified afterwards, which is a huge act of faith. All effects will likely have a potential impact on the interrelationship: negative effects stress the interrelationship and demonstrate dynamic conflict potential beyond rational influences.

This inquiry in three different cases reveals the fact that the sufficient power of the CEO is likely to be increased if the owner supports the CEO without any constraints in relation to third parties. Within the dyad, an open communication helps to evaluate the action. Power requests for verification (James, 1994) and is revealed in the opportunity of the CEO to change individual and organisational behaviour. If that is not given within the dyad, a negative impact to the innovation capability is likely inevitable. Power includes the competence of the acting individual. It seems to be obvious that only with power, given by the owner rooted in the owner-CEO dyad, is the CEO able to influence subordinates by decisions and lead an enterprise, controlling the conduct of the employees and the entire enterprise. Power likely induces further a proactive responsibility for actions.

7.2.1.5 Responsibility

The innovation capability is likely to be affected positively if the CEO and the owner take their individual responsibility, which is based in their functional power and their personal role: the owner as strategic driver and the CEO as operational driver. The CEO and the owner can hardly devolve their responsibility, even if it is en vogue to submit responsibility to employees and define leadership bottom up. Responsibility can emerge as a diktat to decide and act, satisfying continuous readiness to act on rational and emotional circumstances. Responsibility is sometimes not deferrable and defies the ability to act. Current decisions could be outdated tomorrow. The economic digital world is quite dynamically driven by progress and hence by innovation. Strategic reflections could be wrong before they are implemented and this claims a close cooperation between the owner-CEO. Different comprehension and unspoken individual and social anxieties could hamper the acceptance of more necessary responsibility and influence the owner-CEO interrelationship.

The paternalistic oriented case is in a situation where the responsibility of the owner is not deferrable. For the time being, the paternalistic oriented owner tries to postpone his action but the clock is ticking. This behaviour paralyses the CEO, burdens the interrelationship with her owner and the entire enterprise and seems to be fatal for the innovation capability. On the other hand, the CEO knows about the current situation and is also keen to take over responsibility. However, the CEO has not the courage to act against the owner, being grounded in their interrelationship. She is too weak to assert her interests and the owner favours a weak CEO to avoid a face to face interrelationship and also favours a unilateral dependency. The owner keeps the vertical hierarchy on hold with authority and the CEO has not the courage and the strength to act. The owner symbolises the opposite of a team player. Hence, the paternalistic oriented case persists in a degeneration phase, caused by an owner-CEO dyad with its verification in a low innovation capability potential. Responsibility likely demands courageous proactive action and there should be passion to act within the interrelationship, which is revealed more demonstratively in the entrepreneurial oriented case.

On the basis of missing close cooperation within the managerial dyad is the CEO with his reduced level of responsibility. He has to resist the stress from the owner in case of wrong decisions, but he enjoys, on the other hand, a high degree of freedom. The CEO has to carry the load of responsibility on his own shoulders, which has a favourable effect on the dyad if the performance of the enterprise is in the interests of the owner, but if not, negative effects on the dyad are inevitable, with an effect of a lower risk awareness, which could have negative potential for the innovation capability. The quality of the managerial dyad is focused on the owner's financial targets. Deviations lead to stress within the interrelationship. Trust in the CEO´s responsibility is revealed as a unilateral non-negotiable rational reality. The social stress that occurs in this situation for the CEO is approved and influences the sustainability of the owner-CEO interrelationship and is verified particularly in the innovation capability of the enterprise.

The owner and the CEO in the entrepreneurial oriented case have similar and proximate dominant traits (Davis, Schoorman and Donaldson, 1997), like responsibility and autonomy. Both actors know and assume their individual responsibility and are aware of their tasks. They both demonstrate their passion for the task they have to enact and take their responsibility role proactively. The whole togetherness and support among each other is exemplary, and is presumably the trigger for the constructive face-to-face interrelationship of both actors and seems to be innovation friendly. A coincidence in appreciation and perception and in acting will be signalled in the verification (James, 1994), which is revealed in a collective responsibility for the same tasks. The rational interdependence in a vertical hierarchy and the social and professional togetherness between owner and CEO lead to a responsible interrelationship (team), where a mutual reliance strengthens the individual to decide in necessary steps the targets of the enterprise. The CEO feels secure in the performance of his responsibility and knows that he has the support of his owner in the case of failure, which potentially increases the innovation capability of the enterprise.

7.2.1.6 Support

It is certain that individuals need, from childhood, good support and the feeling of being safely attached (Bowlby, 1958; Petzold, 2012):to take individuals seriously, to be honest, and to be understood. Individuals have a need for appreciation, affiliation, and perceived security (Rogers, 1959, Petzold; 2012). If the CEO is not safely attached, he/she is not taken seriously and honestly and is not understood within the dyad; he/she likely acts uncertainly and transmits this behaviour to the entire enterprise, which can have a significant negative potential on the innovation capability (Van de Ven, 1997; Jeschke, Isenhard, Hees and Trantow, 2011). This phenomenon is revealed exactly in the paternalistic oriented case, where the CEO does not get the necessary support and feels unsafely attached within the organisation. This has led to the situation where the CEO is thinking about leaving the enterprise because she has no standing and no backing from her owner. The owner is too strong and if the CEO is acting against his interests he denies his support. The owner likes to fix the traditions and effects a potentially negative influence on the innovation capability. The owner in the entrepreneurial oriented case is generically entrepreneurial, supporting his CEO and standing behind him, even in the case of failure, thereby giving him the feeling that he is safely attached within the organisation. This support of the owner is realised by everybody in the organisation and no one has any doubt about the autonomy and the power of the CEO. He acts likely with absolute respect and the safe support and trust of the owner.

Without any doubt the owner stands behind his CEO in the managerial case and supports him as best he can, but with a significant limitation. Success is mandatory, and if the CEO does not reach the performance targets of the agreed budget he loses the standing, backing, and support of his owner, which bestows on him a limited safe attachment. They have only a common dyad reality if the CEO accepts the reality of the owner, which is profit related. If this target can be reached by innovation it is welcome, if not the owner-CEO interrelationship will get stressed. Reality is only that which brings the success forward (James, 1994) in the eyes of the owner, and that in the short-term. Astonishingly in this inquiry is the fact that the owner in the paternalistic oriented case does not stand behind his daughter in the business environment, nor does he give support, appreciation and care for his daughter, so that she does not have the unlimited feeling of staying safely attached in the enterprise. The owner instead harms his CEO and gives her no backing, seemingly happy to stand there as the big old hero whilst using his daughter, the CEO of the enterprise, as a pawn in his hands.

The innovation capability of the enterprise is likely to be affected positively if the CEO gets support from their owner for their actions, whether successful or not. I came to the conviction that support is likely the mandatory factor within the owner-CEO interrelationship in order to potentially foster the innovation capability. If support is missing, particularly in the case of wrong decisions, a CEO will decide with more anxiety and reduce his/her risk propensity to innovate. Missing support by the owner can destroy the structural order of the dyad and deregulate the interrelationship. It is likely that this support and care of the owner adjust the interrelationship, which is based on trust and the functionality of togetherness, and colour the next relational model action, as analysed in the enquired cases' reality.

Support and appreciation likely give the acting individuals the safety to act, even if the outcome is uncertain. They give immunity and existential safety, which is significantly important for a dependent acting CEO. The last point is likely mandatory in the owner-CEO interrelationship in respect to innovation capability. In successful actions, the support of the CEO is natural. In case of false actions and failings, the CEO will be more and more vulnerable and need crisis liability and reciprocity, a backing for the situation from the owner that relies on protection of the weaker individual. An emotional attachment could likely strengthen the owner-CEO interrelationship and protect the CEO from mental overload. If fear of failure is dominating the interrelationship, negative influences in the area of the innovation capability of the enterprises are likely unavoidable. The CEO in the entrepreneurial oriented dyad confirms the support of his owner if wrong decisions and executions are made, and has obvious enough resilience to manage the situation (Herrman, Stewart and Diaz-Granados, 2011; Dovey, Burdon and Simpson, 2017). Permanent communication means that wrong decisions and failures are not a surprise within the owner-CEO interrelationship. They are announced and discussed in good time. This conduct is seemingly not possible in the paternalistic and managerial oriented cases, and leads to the fact that the risk-taking propensity - and with it the innovation capability – disappears in varying degrees.

Failed investments in innovations adversely affect the rational reality and burden the owner-CEO interrelationship. The crucial point seems to be how the dyad learns from this situation. Within the owner-CEO interrelationship, similar experiences and perceptions must be learnt from and acted upon in the next case more professionally in respect to the intended target in order to improve the innovation capability in particular. The quality of the interrelationship seems to be crucial and demonstrates by the different influence show relational dynamics based on emotional and rational aspects potentially shape the situation within the owner-CEO dyad and beyond.

7.2.1.7 Conclusion

Six influence factors: action, communication, autonomy, power, responsibility and support demonstrate how emotional and rational dynamics shape the situation within the owner-CEO interrelationship and reveal potential in the innovation capability of the enterprise. Within the pragmatism approach (Rorty, 1979, James 1994) occur relational dynamics on an emotional and rational basis, which will be continuously changed in comparison to a static, rational approach specific to each of the current theories: agency theory (Jensen and Meckling, 1976), stewardship theory (Schoorman, Mayer and Davis, 2007), and team production theory (Blair and Stout, 1999). Mutual dependencies and mutual trust play a significant role in the perception and sensibility of the daily togetherness within the owner-CEO dyad. The pragmatism approach (James, 1974) reveals in the inquiry of the owner-CEO interrelationship a system of emotional and rational meanings, so itis likely that this influences the innovation capability of the MSEs and constitutes a reality that occurs in the practical and experienced dyad. Hence, emotions likely influence rational behaviour. The collective team approach, with an owner and a CEO who integrate their human and physical resources (Belloc, 2012) within the interrelationship, and have more operational closeness, seems to potentially stimulate the innovation capability. In respect of continuously conflicting dynamics, the innovation capability of the enterprise is likely to be affected positively if the owner and the CEO use the interrelationship influence model.

The prior discussed influences within the owner-CEO interrelationship demonstrate generic innovation conditions in German MSEs and reveal factors that are able to shape the dynamic situation. The continuous interrelationship influence model approach reveals **first** that action and support bear the main factors for the owner to influence the owner-CEO interrelationship, whilst **second**, for the CEO, the factors are power and autonomy. **Finally**, a common agreement and acting platform for the owner and CEO to facilitate communication and responsibility seems crucial. The factors of communication and responsibility demand the proactive cooperation of the owner and the CEO within their interrelationship to ensure appreciation, affiliation, and perceived security (Rogers, 1959; Petzold, 2012). All influence factors in the owner-CEO interrelationship are revealed in the interrelationship influence model (Figure 3), which improves potentially by its rational and emotional behaviour the innovation capability in the enterprise. It becomes more and more clear that a contract between owner and CEO, as requested in the agency and stewardship theories, cannot foresee relational dynamic conflicts and confirms the relational contract theory of Macneil (1980).

New actualities create new realities (James, 1974) and so it seems necessary to repeat the interrelationship influence model in an endless loop to generate new knowledge to improve the innovation capability of the enterprise. This entrepreneurial action, initiated by a common understanding between owner and CEO, leads into the next loop, a continuous recurrent change which increases the resilience of the dyad in case of stress and conflicts and bears potentially positive effects to the innovation capability. The action to communicate a strategic change is the inspiration to allow the CEO to use his/her autonomy and power to lead the enterprise with responsibility to the announced target.

The results of this study, which are verified in the pragmatic reality, reveal - beyond rational influences - emotional influences that were not reflected deeply in the existing literature. The current corporate governance theories: agency theory, stewardship theory, and team production theory (Table 1) are not grasped deeply enough. These predominantly rational approaches are extended by an emotional influence, as discussed in the interrelationship influence model (Figure 3). Whilst the team production theory and the stewardship theory take more account of social and collective influences, these influences deny the agency theory its existence. Social influences, based on rational and emotional aspects within the owner-CEO interrelationship, have potential to influence the innovation capability in medium-sized technology enterprises, as do situational influences.

7.2.2 Situational Interrelationship Influences

The literature review identified that much of the research on the interaction of owners and CEOs is revealed within corporate governance, based on situational influences in agency, stewardship and team production theory. In this section I discuss the relevance of the three theories in respect to situational interrelationship influences, as discussed in Chapter 6. The adoption of the ideology-based framework enabled me to examine variations in owner-CEO interrelationships to tease out how economic theories might be relevant to the research question: How does the owner-CEO interrelationship potentially influence the innovation capability of medium-sized technology enterprises?

The corporate governance principle in the current literature is separated into two factions: shareholder principle and stakeholder principle (Bottenberg, Tuschke and Flickinger, 2017), with their different effects on the owner-CEO interrelationship. Basically, it seems that the two principles are more competing than complementary, and this will be discussed. As the analysis indicated, the team production-oriented case potentially stimulates the innovation capability of the enterprise more than a stewardship or agency approach could. The origins of that result could be the consolidation of the owner´s and CEO’s common knowledge, as demonstrated in the entrepreneurial oriented case. Whilst more agency theory-near cases serve budget controlling activities and the owner´s hubris and satisfaction, the team production-oriented and technology-driven owner has more of a realisation of innovation targets in the foreground. This significant difference seems to be a result of the collective thinking of the two protagonists and is more task driven then individual driven, and likely bears less emotional influences, which have the potential to reduce interrelationship conflicts and could stimulate the innovation capability positively (Tylecote and Ramirez, 2006; Sapra; Sapra, Subramanian and Subramanian, 2014). The collective thinking, paired with a face-to-face interrelationship that is based on a horizontal hierarchy, likely supports the concentration on professional tasks and reduces the potential of intra-personal conflicts.

A comparable aspect is possibly the strategic philosophy. It makes in my eyes no difference if corporate governance is focused on business development, profit enhancement or conservation of the status quo (see Table 6). All of these targets could be flanked by innovation activities, but the collective identity seems to be particularly important (Tassabehji and Elliman, 2006) to the announcement of strategic targets (Craig and Dibrell, 2006) and the volition to improve value creation (Huse, 2005b). This appears more in the team production approach, because of the collective agreed target and execution, rather than in the agency and stewardship approach, where the strategy definition and the execution lie in the hands of the CEO and the owner can only monitor the proceedings. Hence, mistrust is constrained, but increasing monitoring potentially affects the innovation capability. The commitment of the stakeholders within the owner-CEO interrelationship to strategic decisions bears potential to stimulate the innovation capability. Bottenberg, Tuschke and Flickinger (2017) argued that stakeholder-created strategic decisions are less oriented towards maximising profit and potentially support the innovation capability more (Trantow, Hees and Jeschke, 2012). Strategies and the strategic execution result in unavoidable conflicts between the team members and hence impact on costs, due to concentrations on multiple interest groups (Bottenberg, Tuschke and Flickinger, 2017). I see this potential problem as being relatively small in the owner-CEO interrelationship if good communication is mandatory and trustful togetherness is given, as appeared in the entrepreneurial oriented case.

The analysis showed that two agency theory-near owners have a stronger social conflict with their CEO. The application of liquid assets, market orientation, and innovation ambitions reveals as different and bear many conflicts in the two cases, whilst the entrepreneurial case with a more collective approach reaches consent here and reduces tensions and conflict dynamics within the interrelationship. Certainly, that is due to the fact that the quality of the owner-CEO interrelationship, which is based on the psychological and social interrelationship influences, discussed in Section 7.2.1, is in this case stronger than in others. Individual stimulus, expectation, motive, and mutual support bear potential to influence the effectiveness of the interrelationship, as well as social influences. A stable owner-CEO interrelationship possibly also opens the doors easier for endogenous support like that which is required in co-creation or open innovation, which could potentially stimulate the innovation capability of the enterprise (Ramaswamy and Ozcan, 2014; Lee, Olson and Trimi, 2012) and extend the network around common interests; this is likely more possible in a team production approach. A consequence of the stakeholder approach is that it likely leads to a higher attachment of the CEO to the enterprise, which could entail better cooperation between owner and CEO (Reckwitz, 2018) in the case of crises (Bottenberg, Tuschke and Flickinger, 2017). Sharing of profit indicates in the same way also a reduction of the CEO's wages and a withdrawal of contractually agreed wage-standards if necessary, and could help to bridge difficult enterprise stages. If the collective stands in the foreground in the owner-CEO interrelationship, exogenous disturbances are easier analysed and proactive counteracts are more likely, which support a team production approach. To be a part of the collective in crises or prosperity periods hypothetically affects the CEO as stakeholder and team members by emotions that are not easy to describe, but potentially motivate the CEO and increase their interrelationship quality. This claim needs further research.

Teams are able to produce more when they are working together than when they are working separately (Blair and Stout, 1999). Each extra effort of the owner or the CEO can generate extra value creation, which is shared in team production theory. Shirking, rent-seeking, and reliance could be a problem, which was more analysed in the cases that were not team oriented, where the owner in the managerial oriented enterprise replied to the CEO that he executes the necessary actions. In the paternalistic case it was the CEO who stated that the owner supports her and that the business moves on. Both behaviours seem to indicate mutual consent, but the whole individual power was not used. The analysis indicated that all CEOs and owners have reasons to want all of the others to corporate fully and hope in the same way to benefit from their involvement, and are likely to have an interest in finding an interrelationship that is effective at eliciting support and cooperation from the counterparts, whose contributions are important to improve the innovation capability. The owner and CEO as a sum can create together in a good working interrelationship potentially more than when they are separate. Finally, it seems that what is good for the enterprise is prospectively good for the stakeholders, too. Likely it needs more than the volition to innovate and it has less to do with the corporate governance principle. Instead, it has more to with the fact that the owner and the CEO fit with their characteristics one principle or the other, and if she/he is willing to serve the requirements, which are more endogenous factors. The study shows that both endogenous and exogenous factors potentially influence the innovation capability.

The shareholder approach in agency and stewardship theory and the stakeholder approach in team production theory must be, in my eyes, not imperatively competitive. These approaches have also the possibility to complement each other. Control, trust, and sharing symbolise each of the theories and could not be seen as static elements in corporate governance. Control and monitoring are revealed as necessary elements in interrelationships if there is no history between the protagonists. The analysis indicated that trust fosters commitment of the owner and CEO, which could stimulate the innovation capability. In the available history of this issue, trust likely will emerge and the owners will consolidate this status. The collective conduct will move into the foreground and a more team-oriented approach will develop. Trust, interdependences and sharing of power, responsibility, and incentives win through and potentially stimulate the innovation capability of the enterprise. The thus developed team approach leads to an interrelationship on a higher level and potentially influences the innovation capability positively. By these circumstances the team production likely provides a more positive ground for a fair interrelationship, and supports co-determination (Aguilera and Jackson, 2010) between owner and CEO and reduces the one-way interrelationship mentality in the agency and stewardship theories. The analysis indicated that the corporate governance approach within the owner-CEO interrelationship follows over time an evolutionary process from a more control-oriented agency theory to a more collective trust-oriented stewardship theory, with both theories dominated by a shareholder concept to a more stakeholder approach, where collective team spirit and trust stand in the foreground and where the initial CEO dependency of the owner moves to a mutual interdependency at eye level. Initial theoretical competitiveness between shareholder and stakeholder principles intertwine in the transmission and emerge as complementary in a pragmatic approach, as verified in the entrepreneurial case, and support a long-term owner-CEO interrelationship, as suggested in the team production theory (Blair and Stout, 1999). Analysis of this verified that a hybrid principle is more likely than a theoretical existence of one corporate governance theory, which supports the assumption that the dynamic pragmatic reality verifies the potential influence of the innovation capability, not the theory.

Monitoring and control reveal as a key issue in agency theory, whilst it is more substituted in stewardship and team production theory by trust. I argue that monitoring is a key element for each professional CEO in MSEs, whether in agency, stewardship or team production in a pragmatical approach. Without monitoring as a logic and control unit in corporate governance it seems likely impossible to lead an MSE to success. Why the CEO does not discuss this monitoring proactively with their owner independently, whether in a shareholder or stakeholder principle in order to reduce dynamics between the two parties, is an important question. The latest dynamics could come up within the next annual report, guided by a lot of emotions. This more collective-team approach involves the owner indirectly in the execution and reduces the scope for rational and emotional frustration in MSEs. If trust emerges it does not equally imply that an agency approach loses the claim for separation between ownership and control. It merely means to implement team ideas in a pragmatical agency approach, which forces the conclusion that a hybrid governance approach by an increase of trust in an agency theory could have positive potential to influence the innovation capability (Ozcelik, Langton, and Aldrich, 2008; Bogers, Afuah and Bastian, 2010; Miao, Newman, Schwarz and Cooper, 2017; Hasche, Linton and Öberg; 2017).The owner’s input in MSEs is more intensive than in large enterprises, and leads to an inevitably closer cooperation between owner and CEO. If the owner-CEO interrelationship follows a team production-near behaviour, with collective ends, it is likely that the innovation capability will be stimulated, rather than in an agency context, where ownership and control are more strictly separated. Interviews with the team-oriented owner reveal manifoldly the impression that situational circumstances are potentially less emotionally explosive than in the other interrelationships, which potentially influence the innovation capability of the enterprise and contribute, by this finding, to knowledge. The more collective behaviour in the team-oriented approach could lead to a closer link between the participants, which could reduce or in the same way increase emotional dynamics. Likely it seems to be important to establish a professional distance between owner and CEO, rather than to lose the desired rational imperative in technology and profit oriented MSEs.

The different ideological effects (Johannisson and Huse, 2000), as a further antecedent of corporate governance, indicate further situational interrelationship influences. The analysed patriarchal case, dominated by saturation and instability, is unlikely to stimulate the innovation capability. A unilateral understanding of reality contradicts the pragmatical reality approach and has likely potential to constrain the innovation capability, as it seems counter-productive for a team production approach. A similar influence appeared in the managerial case, where the wait-and-see mentality and a reduced decision-making of the CEO within the interrelationship was less team oriented. The opposite reveals in the entrepreneurial case, where the necessary openness to innovation was part of the owner-CEO interrelationship on the team level, as extensively discussed in Section 7.2.1.

7.3 Conclusion

In this thesis, I have examined the potential influences of the owner-CEO interrelationship on the innovation capability in medium-sized technological enterprises. I have asked whether this interrelationship is affected by corporate governance theories like agency theory (Jensen and Meckling, 1976), stewardship theory (Davis, Schoorman and Donaldson, 1997) and team production theory (Blair and Stout, 1999) and by different ideologies (Johannisson and Huse, 2000), and I have highlighted social and situational interrelationship influences in the area of innovation capability. The previous research on innovation capability (Crossan and Apaydin, 2010) has tended to look at the internal workings of the firm and has ignored the stronger influences of the owner in MSEs and focused on the internal workings more than on rational influences. Emotional influences within the owner-CEO interrelationship have often been neglected.

In my discussion, I demonstrated that social and situational interrelationship influences (Figure 3, interrelationship influence model) can have a number of stimulating or constraining potentials to the innovation capability, particularly in MSEs. A stable owner-CEO interrelationship founded on mutual trust and commitment, based on action, communication, autonomy, power, responsibility and support can create a lasting approach to improve the innovation capability. Moreover, a stronger commitment towards team production and an entrepreneurial conduct within the owner-CEO interrelationship may support innovations and innovation capability, and may help the enterprise to manage dynamic challenges. Medium-sized technological enterprises may tap the potential of the owner-CEO interrelationship more effectively because they are considered emotional and rational influences. Refined knowledge and expertise in owner-CEO interrelationships enable protagonists to understand the value of an efficient interrelationship and their potential to influence the innovation capability. It could be argued that the owner knows how to profit from the owner-CEO interrelationship in order to influence innovation capability, rather than view the interrelationship as a time consuming and contractual necessity. Stable owner-CEO interrelationships, as well as expertise in emotional and rational influences between individuals, are likely anchored in successful corporate governance systems. This provides an environment in which the positive effects of interrelationship influences are facilitated.

However, one major problem of corporate governance potential influences on the innovation capability that remains is that its success depends strongly on the quality of the existing owner-CEO interrelationship. Particularly, a strong owner-CEO interrelationship that is not managed adequately (Coff, 1999) can weaken rather than enhance the enterprise innovation capability. Whereas owner-CEO interrelationships characterised by mutual trust and commitment to interrelationship influences towards the success of the enterprise can serve to stimulate innovation capability, interrelationships that lack these criteria can constrain the enterprise innovation capability. It could be argued that MSE corporate governance interrelationships could be more conducive to interrelationship dynamics when the owner's and the CEO's emotional and rational aspects are highly intertwined. However, instead of generating doubts about the existence of emotional influences of owners and CEOs, the protagonists have to realise that emotions likely influence rational behaviour (Pham and Tuan, 2007). This ongoing discussion, for example, involves ways in which the owner and the CEO can help to stimulate a climate that is positively related to the innovation capability in MSEs.

Lessons from the entrepreneurial dominated case context (and its hybrid -agent, steward, team conduct) operating owner and CEO portrayed in this thesis could serve as a blueprint and comparison for adaption in other corporate governance cases. On the one hand, the managerial and paternalistic dominated cases could learn from the entrepreneurial dominated case model of governance as to how owner and CEO are able to moderate an interrelationship that is on eye level, grounded in trust and takes social influences seriously and in a mutually beneficial manner. On the other hand, the underlying ideology and a stakeholder-oriented system with a horizontal hierarchy within corporate governance in a team production approach potentially stimulate the innovation capability (Aguilera and Jackson, 2010) of MSEs. This allows, for a modern medium-sized technology enterprise, an approach that answers the needs of global markets in respect to innovativeness. Thus, in the absence of an ideal model of corporate governance (Yoshikawa and Rasheed, 2009) and enterprise ideology (Johannisson, 2002), hybrid solutions that smartly integrate different elements within their owner-CEO interrelationship and likely in their organisation, such as in the entrepreneurial oriented case, could turn out to be successful. Supposedly, a strong investigation into the owner-CEO interrelationship is revealed both as a challenge and as a potential stimulation influence for the innovation capability in medium-sized technological enterprises.

Social and situational influences were defined within the owner-CEO interrelationship that are likely to influence the innovation capability in MSEs and contribute thus new knowledge to the existing level of knowledge. Beyond situational rational influences are crucial social emotional influences that are revealed out of the owner-CEO dynamics and are theorised in the interrelationship influences model. **First**, an interrelationship influence model (Figure 3) was conceptualised and reveals six dynamic interrelationship influence factors: action and support as the owner's main authority, autonomy and power as a major authority of the CEO, and communication and responsibility as shared authorities of the owner and the CEO. The theoretical model reveals an ostensibly causal coherence between the owner-CEO interrelationship and the innovation capability in MSEs. The innovation capability is likely to be impacted positively if the owner and CEO have a close cooperation, are action-oriented and have an interrelationship that is face to face, which means equality between the two actors and the ability to deal with conflicts to find common consent within their interrelationship. The face-to-face conduct reduces the hierarchy between the owner and the CEO and supports their horizontal interaction, which could be the most important reason that the dyad is able to produce more than the sum of their individual input (Blair and Stout, 1999). This general conduct is explicitly developed in the interrelationship influence model, which conceptualises continuous recurring activities. **Second**, an entrepreneurial dominated team production approach seems to be the best method to stimulate the innovation capability by situational influences. The stakeholder approach, with its long-term collective perspective on firm performance and value creation and the mutual commitment of the stakeholders to strategic philosophy and decisions, generates potentially a positive effect to the innovation capability (Crossan and Apaydin, 2010) of the enterprise and supports more the resilience and stability of the owner-CEO interrelationship and the emotional harassing fire. Nevertheless, the analysis shows that a hybrid of the existing corporate governance theories bears potentially more positive stimulation to the innovation capability in a very dynamic market than persistence in agency theory might yield.

Hence, corporate governance research should not neglect social and situational influences by the owner-CEO interrelationship in MSEs. Wrong management, ignorance, and hubris, have less Dasein-existence and will be eliminated within the owner-CEO interrelationship. The innovation capability is likely to be affected positively if the owner and CEO have equal rights and duties in a horizontal team hierarchy and act as entrepreneurs who follow the interrelationship influence model. Creative entrepreneurs need self-awareness and self-consciousness and the courage to act in dissent. The owner and the CEO have to call or summon the opponent within the interrelationship out of their unconsciousness and into an awareness of themselves as a free and independent individual within a mutual dependent interrelationship. Innovation capability is potentially founded in the volition to summon oneself. A rational structured and an emotionally respecting owner-CEO interrelationship potentially influences the innovation capability in medium-sized technology enterprises positively.

> “Your action and your action alone determine your value.”
> (Johann Gottlieb Fichte, 1797)

Chapter 8

8 Conclusion

In my revisit of corporate governance in general and in particular of the owner-CEO interrelationship in medium-sized technology enterprises and its potential influences on the innovation capability, I aimed at taking a more all-inclusive look at rational and emotional affects within the owner-CEO interrelationship because these findings underline that the traditional focus of economics researchers on “rational” behaviour is limited (Kirchgässner, 2008). Linked back to the theoretical corporate governance discussion about agency, stewardship, team production theory, and enterprise ideologies mechanisms in MSEs, I based my investigations on social, psychological, and situational interrelationship influences rather than previous research, which tends to look at the internal workings of the enterprise and ignores the influences of the owner. I revealed that the owner-CEO interrelationship has potential to stimulate or constrain the innovation capability, particularly in smaller (MSEs) enterprises where owners have more input than in large public enterprises. This thesis contributes to the theoretical development to corporate governance theory and explains better the owner-CEO interrelationship and its potential to influence the innovation capability in MSEs, and illustrates the interplay between social (see Table 4), psychological (Table 5), and situational interrelationship influences (Table 6) in an interrelationship influence model (Figure 3).The findings show that the reality is subtler than merely a self-serving, self-actualising, or a team-conducting corporate governance behaviour between the two top management protagonists, owner and CEO. Also, emotional dynamics between the protagonists within their interrelationship have a significant affect. A number of effects that combine the influences have been identified.

This chapter has been divided into five sections. It begins first by the contribution this study has made to current knowledge. Section Two discusses implications for policy and practice. Section Three assesses recommendations for continuing research. Section Four clarifies limitations of this research and, finally, Section Five then provides a concluding statement on the project.

8.1 Contribution to Knowledge

This study adopted a multiple case study methodology, providing an in-depth understanding of the owner-CEO interrelationship and its potential influence on the innovation capability of MSEs. Empirical evidence was gathered from three different MSEs with different ideological orientations. The selected methodological approach worked well to highlight the effect and interplay of forces of mutual dependent owner-CEO interrelationships within the enterprise, in terms of innovation capability. The owner-CEO dyad is in general charged to lead an MSE in Germany by an appropriate corporate governance to economic success and in particular to innovation, which will find expression, among other things, in the innovation capability of the enterprise. The inclusion of dynamic social, psychological, and situational data has provided a level of insight that a rational analysis could not. This methodological approach worked well to highlight the impact of the owner-CEO interrelationship and its potential influence on the innovation capability.

The adoption of an inductive analytical approach to the data encouraged an openness to different theoretical perspectives, as themes of action, communication, autonomy, power, responsibility, and support emerged from the data. Analysis centred on social and situational influences from the owner-CEO interrelationship and hence by results of conflicting meanings attached by the issues to the corporate governance team. The theoretical framework that emerged from the analysis as the most appropriate to explore and explain the identified phenomena was a combination of existing theoretical lenses, drawing on James´s (1994) and Rorty´s (1979) pragmatism and the moral dimension towards a new economics, Mikl-Horke´s (2015) constitution problems. James (1994) mentioned that pragmatism occurs as a dynamic reality, which behoves continuous changes in comparison to rational approaches where the existing theories like agency theory, stewardship theory, and team production theory belong too, but with the restriction of leaving out emotional influences that also influence reality.

A substantial and growing evidence base confirms that the interrelationship between individuals in an organisational context can make a positive difference for the output of collective achievements, ends, and intentions. However, many theories do not realise this potential, and a primary reason for this may be the quality of experiences available to real business settings. Considerable advances have been made to understand organisational relationships, corporate governance, and performance of enterprises through agency, stewardship, and team production theoretical perspectives. This review (Table 1) highlights the success and efforts of enterprises in applying and extending these theories into this unique context (see 7.2 and 7.3). These theories highlighted how conflicts of interests can arise between owner and CEO and focus on shareholders and stakeholder’s rights to control and trust the executive responsible CEO and what seems to be an adequate reward. The control issue reveals in endless theoretical studies the main problem in the owner-CEO relationship, with a valid interest in the probably most important personal relationship in MSEs. Control, trust, or benevolence emerge as the emphasis in respect to governance mechanisms and focus predominantly on a rational owner-CEO relationship. Shareholders and stakeholders have a legitimate interest in the viability of this relation and scholars have appreciated this interest since the beginning of the last century and underlined the importance of this issue. However, organisational relationships may be more complex than those analysed through agency, stewardship, and team production theory. The claim of these theories may not apply in all situations. An alternative complementary model of the owner-CEO relationship within the context of corporate governance is the interrelationship influence model, which focuses beyond the rational aspects of cooperation (Reckwitz, 2018) – on social aspects and a focus on thinking, acting, and feeling of the two protagonists. The research complements the understanding of the relational model of the owner-CEO dyad by describing its influences and theoretical and practical contribution.

I extend the previous agency, stewardship, and team production theory research (Chapter 2) by developing an in-depth picture of real business settings in German "Mittelstands" enterprises (Chapter 4-6) by defining several influences of conduct attributes within the owner-CEO interrelationship. Owners who focus on their leadership behaviour to urge the CEO to cost reduction, to enhance the firm performance, or to long-term-welfare, act myopically in the current dynamic frantic environment, rather than investing further in the quality of their interrelationship according to rational and emotional issues.

Agency theory addresses a divergence of interests between the owner and the CEO, whilst stewardship theory focuses on an owner-CEO relationship, which agrees completely in their interest, and team production theory concentrates on a collective co-management and co-participation by the team members. All three theories (discussed in Table 1) defend a traditional static approach and ignore social and situational dynamic influences. The current study contributes with an interrelationship influence model, a focus on relational dynamics and tensions and conflicts between owner and CEO in their togetherness. Trust, as discussed in 2.2.2, emerges in the stewardship and team production theory as a major issue and is neglected in the agency theory. This trust comprehension results in a static concept and does not reflect dynamic circumstances that are influenced by different events and perceptions between the two protagonists. Similar differences are highlighted in the owner-CEO dependence. Whilst agency and stewardship theory favour a more dependent CEO, team production theory privileges a more independent

CEO who is focused on the interests of all participating stakeholders. The contractual relationship between owner and CEO assumes trust and a relationship of dependency as a basis for both parties, but not all possible events are defined in a contract, and this underlines the approach of a relational contract (Macneil, 1980). Tacit occurrences lead often to misunderstandings and a reduction of trust, with its influences on the interrelationship. These rational dynamics lead to a different understanding of trust over time and contents more than the static intention to trust the CEO that he/she will act in the interests of the owner.

Stewardship theory discusses higher order needs of the CEO and claims that the CEO in stewardship theory has higher order needs than the agent in agency theory, but both theories follow a shareholder approach and focus on the wealth enrichment of the owner (see Table 1). This reveals as contradictory. The team production theory follows a stakeholder approach and has got, as higher order needs, the stakeholders and hence all participants more in mind. I follow with these findings this approach and add the imperative of a more social focus of higher order needs in the context to enrich society by corporate transaction. This thesis contributes by the knowledge of this study to focus, through the owner-CEO interrelationship, more on overall objectives like enhancing the innovation capability of the enterprise in order to deliver essential innovations to society and thereby ensure a long-lasting right to exist or to enhance societal progress, which is a real higher order need, rather than the maximisation of profit or wealth.

To optimise the profit and wealth problematic of the current theories through the execution of the CEO and the control function of the owner lies the emphasis in these theories - mostly on the unique economic and legal function of the protagonists. These protagonists behove, finally, the whole accountability within the enterprise and carry many legal rights to protect the interests of the firm and avoid harm from internal and external stakeholders. In respect to the owner-CEO interrelationship, legal and economic rights and duties are not sufficient and limit the current theories. An additional focus on human interests (Ehresmann and Badura, 2018), individual needs and anthropoid respect is crucial to motivate a CEO in his/her daily execution and reveals a further contribution of this thesis. Former theories degrade a CEO to an algorithmic agent and as a recipient of orders from his owner. The settings in real business environments are different and need provision for humanity between owner and CEO, where the interrelationship influence model is focused on, and this subsequently contributes by its findings to current knowledge.

The complexity of the owner-CEO interrelationship is missing in the three reviewed theories and limits theoretically its application and finds a new contribution to knowledge in this thesis. The interrelationship, based on social as well as on situational influences, builds on interactions between the two protagonists to play a crucial role in their cooperation in German MSEs. Tensions and conflicts between the owner and CEO are deeper analysed in the interrelationship influence model and consider the dynamic complexity of human coexistence. This contribution will change the theoretical model in organisational theory and corporate governance through a higher focus on the human interests of the protagonists and their primary needs, rather than on pure economic interests, with all their implication for policy and practice.

8.2 Implication for Policy and Practice

An interesting implication of the interrelationship influence model is related to the cultural, geographical, and legal variables and the process of implementation of structural changes in the organisational context. This thesis is focused on the national German MSE culture, which is dominated by a specific “Mittelstands”-culture. A more differential examination in other countries, i.e., in the UK, with its one-tier system, could lead to different structural settings. The examined cases follow a more traditional hierarchical structure. Differences could occur in a more decentralised, flatter, or more participative organisation, or in dynamically changing organisations. This study discusses in its theoretical contribution the dynamic influences within the owner-CEO interrelationship and segregates realities out of real business settings. The findings and conceptualisation have implications for practice, policy and further research.

Agency theory, stewardship theory, and team production theory more describe the individual characteristics and the role of the CEO and the owner, and take less notice of the relational dynamics that occur between individuals in their togetherness, which will have implications for theory and practice. An egoistic rational engagement, an altruistic, cooperative involvement, or a network participation, differ the above-mentioned theories but the reality in real business settings reveals on the one hand as attributable affiliation theory and in all three theories probably with one dominant affiliation. On the other hand, this reveals that business dynamics like a difficult business environment, economic problems, extensive growth, or succession problems can change the behaviour of the top management. For example, how would a team member in the team production approach in an existence-threatening situation act? Team oriented or more self-serving? Even if self-serving behaviour is in the interests of his/her enterprise and not in the interests of the team, this depicts a completely new situation that has to be considered.

The three real business settings were all led by profitable and success-oriented strategies. Business is led by the purpose to earn money in a profit-oriented environment. This could be different in non-profit, non-financial oriented cases, which contains implication for theory and practice. Stewardship theory is more focused on non-profit organisations (Westhead and Howorth, 2006), while agency theory is the dominant approach in financial objectives. But also, this knowledge seems to be not static and behoves business dynamics, and is hence a function of time. It seems that under the assumption of long-term business requirements, social and situational dynamics can change the cooperation of individuals (Reckwitz, 2018) in the top management.

A rational-functional, a social-functional or a social-professional relationship behaviour, as described in the literature review, is predominantly business oriented and hence task oriented. The satisfaction of Maslow´s (1970; 1992) hierarchy of needs contains more than business-related needs. Human-based needs (Tasheva and Hillman, 2018) can play a crucial affect and want consideration, and contain implications for policy and practice. Human-based needs have a craving for information exchange. An asymmetric information assumption is one indicator for agency theory (Eisenhardt, 1989). Stewardship theory postulates an information symmetry, and the same is true in team production theory (Blair and Stout, 1999). The real business setting in this thesis concludes that there is a desirable level of communication beyond an exchange of business information. Stewardship theory assumes an alignment of the goals between owner and CEO (Davis, Schoorman and Donaldson, 1997), but on which foundation: rational, emotional, or both? This thesis posited a clear implication for both: rational and emotional effects, with their consequences for policy and practice. The attention to the interrelationship, to the thinking, acting, and feeling, to the interaction within the relation and their dependency in the owner CEO-dyad require extension in policy and practice.

This thesis reveals an interdependence between owner and CEO in all three real business cases, even if in different characteristics. The German two-tier system induces an independence between owner and CEO but the opposite is the case in real business settings. This cognition needs entering into policy and practice. Social and situational dynamics within the owner-CEO dyad reveal situations beyond the rational business settings in unrecognised dimensions, and need further research.

8.3 Future Research

I have examined the owner-CEO interrelationship and identified whether particular interrelationship influences have potential to affect the innovation capability of the enterprise and provide an interrelationship influence model (Figure 3). A more well-grained analysis is required to support the evidence presented here in respect to the owner-CEO interrelationship, which would include more detailed realities, the examination of new variables, and testing. Irrespective of ideological contentions about the relative merits of agency, stewardship, or team production orientation and complementary or competitive approaches to owner-CEO interrelations, corporate governance research should continue to investigate how differences in the owner-CEO interrelationship potentially influence the innovation capability and other value creations. Research interested in the relative advantages of any governance models should explore how and when different modes of corporate governance interrelationship influences contribute to enterprise outcomes to advance our knowledge on the role of owner-CEO interrelationship settings for the competitiveness of enterprises.

The paternalistic/maternalistic oriented interrelationship construct needs future research. The pride and arrogance of the paternalistic leader in this investigated case, who overestimated his own power and mentally overloads his CEO, seems to be completely non-rational. An MSE is a mega system confronted with a mega change in speed and dynamics from inside and outside. General values and virtues can get lost in paternalistic enterprises. Avoiding morals leads to excesses in big enterprises as well as in MSEs. Are the wrong paragons espoused at the beginning of this conduct? Control mechanisms are out of order and families and shareholders are not able to control individuals. In this coherence, it could also be interesting to study a maternalistic oriented interrelationship construct where the owner is female and women define different accents. How do gender differences in the top management affect interrelationship influences?

From the methodological view, a long-term study with similar research content to this study could be interesting for future research. How does the owner-CEO interrelationship change over the life cycle of the enterprises and shifting ideologies? To observe the whole ideological business records would take many years but could shed further light on the scientific tradition of ideological studies in economic entities. The difficulty would be in this research to decide on the right start-up, which changes over time from an entrepreneurial behaviour into paternalistic behaviour and the economic parameters of an MSE.

Private equity firms have often encountered a problem in case of a merger or acquisition of a new entity (Carleton and Lineberry, 2004), if the assumptions of the existing leadership make sense. It emerges that more and more soft facts like the owner-CEO interrelationship play a crucial role in the successful integration. It seems that the composition of the owner-CEO interrelationship could have an influence on the performance of the enterprise. This study, with its basic findings, makes future studies in this direction interesting in order to give private equity firms a better understanding of the influence factors of the owner-CEO interrelationship, and in the same way some further CEO selection criteria for the investor.

In short, a variety of theoretical and empirical projects in real business settings are needed to help scholars to fully understand the owner-CEO interrelationship. This study opens the door for further studies - more than expected.

8.4 Limitation

The findings of this study are based on in-depth analysis of three case studies. The study does not claim to generalise to a population of firms from these case studies; instead the aim was to generate theory out of real business settings that provided a plausible and valid conceptualisation that the influence of the owner-CEO interrelationship might have on the innovation capability to firms. Further research is therefore needed to examine and test the conceptualisation in this thesis.

The case studies were selected for this study on the basis of a specific dominant ideology (see 3.3.2). It is difficult to make an unambiguous assignment to one ideology orientation or evolution stage, which confirms the findings of Johannisson (2002) - that businesses probably nurture at least two ideologies concurrently. Whilst the managerial oriented/dominated enterprise was moving to a managerial–paternalistic stage, the paternalistic oriented/dominated enterprise was trying to move from the current stage into a paternalistic–managerial stage, not least by the activities of the young and managerially educated CEO. This dynamic was not possible to examine within the time frame of this thesis.

Another limitation of this thesis is the measurement of the innovation capability (Barney, 1991; Peteraf, 1993; Teece, Pisano and Shuen, 1997; Hartmann, 2011; Smith, Busi, Ball and Van der Meer, 2008: Saunila, 2017b; Adams, Bessant and Phelps, 2006e) in the invention and elaboration stage. This is only derived from the theory but not from the practical and successful implementation of innovation. The measurement of the innovation capability was in this study only possible at a qualitative level (e. g. two of three studied MSE cases have no R&D department, hence the analysis of R&D expenses is not quantifiable). Ultimately, the success of an enterprise is dependent on the implementation and amortisation of innovation, and not only from its invention and elaboration, which were not analysed in this study. This study derives the innovation capability more from the strategic intention of the selected enterprises and from the own cognition of the participants. Here, the entrepreneurial oriented enterprise is in a clear advantage because of the clear innovation-related strategy, which is not that clear in the other two enterprises. Legitimate interests would also be to focus on managerial and paternalistic oriented enterprises, with a clear focus on innovation in their strategy. It could be that these exclude themselves, but this is not examined in this study and limits it thus far.

The study identified that hidden actors may influence the owner-CEO interrelationship, but these were not examined. The wife of the paternalistic oriented owner and the main investors in the managerial oriented enterprise, who were mentioned many times by the participants in this study, were not examined in detail, which limits the autonomy of the examined owner.

A contentious situation was touched on in the paternalistic oriented enterprise. The CEO was clearly struggling with the current situation with her father. The interviews were more personal than expected and necessary, more than in other interviews, which overwhelmed me partly. The CEO’s trust of me and her openness provided a deep insight into the psychological situation in the paternalistic oriented enterprise. This situation sometimes touched on ethical issues and at times I felt uncomfortable.

Another point of limitation is that three case studies provide only a limited number of owner-CEO configurations. Further research might examine different configurations. For example, would a finance investor in an entrepreneurial environment generate difficult results? Is there a gender effect which was not explicitly localised in the study at hand, and is the same true in respect to the age and educational background of the actors? How would a female owner act within the interrelationship with her CEO? How might the relationship be affected if the CEO changed from a male to a female CEO? In Germany, gender issues are becoming more apparent and could be interesting for future research, like other recommendations, which are discussed in the next section.

8.4.1 Reflection on the Project and Method Used

The project, with its selected method, experiences certain practical limitations. A project armed with minimal limited financial resources and also personal resources like a private organised thesis soon reaches its boundaries. It was difficult for me to find acceptable enterprises with a clear ideological dominance, and finding individuals that fit into the desired grid was the next hurdle in order to get the willingness of the management to participate within this study. I had to negotiate the tension within the selected enterprises and the available management time and effort of the participants, as well as getting them to agree to participate in the study. A more field-intensive time instead of a writing-intensive (Miles and Huberman, 1994) time would be useful.

Interrelationships are soft facts and generate many nuances in the assessment and within the analysis. The analysis stage would benefit from having an additional scholar partner at my side to avoid individual valuations and have regular discussions about the experiences and interpretation. On the other hand, I felt confident that the generated assumptions about cause and effect have sufficient validity and that the experiences, the analysis and the evaluation provide a compelling and fair representation of the experiences of the individuals and the cases.

In respect to my a priori and a posteriori bias, it has to be accepted that sometimes it was not that easy to ensure distance from the research participants (Finlay, 2002; Creswell, 2013). The three different cases claimed me in different ways. One owner was not structured in the interviews. He never stopped speaking and it was quite difficult to follow him; in another case it was enormously difficult to get any valid statement and another CEO strayed from the context and it was necessary to frequently bring him back to the main focus.

Pragmatism, as my philosophical approach, was helpful on many occasions during the study. The ontological and epistemological openness to practical relevance opens doors in many directions. The creative openness in cognitions and actions of all studied actors, even if they had different characteristics, was supported by the pragmatic approach. I realised for the contribution of this study that it is quite difficult to change the habits of the owner and CEO. But it seems to be possible to change the circumstances under which better conditions could be generated, which mirrors the essential findings of this study revealed out of the pragmatic reality.

8.4.2 Author´s Individual Critique

My critique starts with my preformed mind in respect to my25 years’ experience in leading positions, among others, as owner and CEO in German MSEs. Many situations seem to me to be quickly clear, but after a second observation and picking holes in an argument I realised that non-rational issues like social and emotional dynamics are not that easy to analyse, unlike an algorithm. Biases and preoccupations resolve only slowly over time and help to understand more the hidden meaning, perceptions, and consciousness of the participants’ statements.

In all three cases, I gained the impression that the interviewed actor tended to ask how I would see the current business situation in the enterprise and asked for support and advice. Maybe it would have been better to send a third person into the field to have pre-structured interviews with the actors, but I believe that the openness with which the interviewees provided findings would not have been possible with someone without my experience and standing.

Ego sum, qui sum!

8.5 Concluding Statement

The general contribution to knowledge is to provide interrelationship influences that have potential to influence the innovation capability of MSEs. Different influences were isolated and enlighten the influence factors. The study shows that the owner´s action and support, combined with the CEO´s autonomy and power and a common obligation of the owner and the CEO to communicate and take over responsibility for their action, is crucial for the quality of influence by the owner-CEO interrelationship in respect to the innovation capability of the entire enterprise, guided by a team oriented and entrepreneurial dominated ideology.

This thesis generates a theoretical understanding where the central concept of the phenomenon is identified as a concept central to the process being examined. The theoretical findings of former researchers (Van de Ven, 1986; Davis, Schoorman and Donaldson,1997; Jensen and Meckling, 1976; Blair and Stout, 1999; West and Farr, 1989; Johannisson and Huse, 2000) were more general and look to the internal workings of the enterprise and ignore influences of the owner. The owner-CEO interrelationship is primarily influenced by social and situational dynamics, which have potential impact on the innovation capability. An issue of further focus was the analysis of problems that occur among these two major decision makers and drivers, and the thesis tries to develop appropriate answers for managing these problems in a theoretical contribution. Business processes are more affected by non-rational effects than is assumed in many economic theories, as demonstrated in the study at hand.

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